

# **Statement of Accounts**

## **for the Year Ended**

### **31 March 2010**

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## THE STATEMENT OF ACCOUNTS

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# THE STATEMENT OF ACCOUNTS

## EXPLANATORY FOREWORD

### 1. INTRODUCTION

**1.1. Changes to the Statement of Accounts.** The key change is in relation to accounting for the collection fund balances in 2009/10. The council is responsible for collecting council tax on behalf of major preceptors such as Kent County Council as well as its own precept. In the past, the balance sheet has shown the total arrears and credits in relation to council tax, however from this year's accounts, only the proportion of the arrears and credits re Canterbury's share must be shown. Similarly with the Non Domestic Rates (NDR) pool - all NDR collected is now regarded as being due to the government, so amounts shown in the balance sheet are due to timing differences. Full International Financial Reporting Standards will be adopted next year, which will result in major changes to the statements.

### 1.2. Contents of Statement of Accounts

The council's accounts for the year 2009/10 are set out on pages 13 to 51. They consist of:

#### The core financial statements:

- (a) the **Income and Expenditure Account** – the council's main revenue account, covering income and expenditure on all services.
- (b) the **Statement of Movement on the General Fund Balance** – reconciles the Income and Expenditure account to the General Fund Balance.
- (c) the **Statement of Total Recognised Gains and Losses** – brings together all the gains and losses of the council for the year.
- (d) the **Balance Sheet** – which sets out the financial position of the council on 31 March 2010.
- (e) the **Cash Flow Statement** – which summarises the total movement of the council's funds.
- (f) The **notes** to all these core financial statements.
- (g) The **Housing Revenue Account Income and Expenditure Account** – which shows income and expenditure on council housing.
- (h) The **Collection Fund Accounts** – which show income from council tax and business ratepayers and precept payments to Kent and Canterbury councils.
- (i) The **Statement of Responsibilities** for the Statement of Accounts.

**1.3** These accounts are supported by the **Statement of Accounting Policies**, (set out on pages 5 to 12) which follows this Foreword and the **Annual Governance Statement** (pages 52 to 66).

**1.4.** This Foreword (pages 1 to 4) provides a brief explanation of changes to the statement, the council's outturn financial position for 2009/10 and budget strategy for 2010/11.

### 2. BUDGET STRATEGY IN 2010/11

The council's budget preparations were developed over the course of the year in order to present estimates for 2010/11-2013/14 to Executive on 21 January 2010 and Full Council on 18 February 2010. This process included a series of councillor meetings (star chambers) with Heads of Service to assess unavoidable growth, and on proposals for savings to prepare for expected ongoing large reductions in government grant. It also took account of the feedback on budget consultation.

The revised strategic issues taken into account (as a result of the credit crunch and worsening economic conditions) were reported in November 2009 as:

- (a) Maintain key corporate plan ambitions taking account of the new revised budget position.
- (b) Protect and maintain vital statutory services.
- (c) Optimise service performance having regard to performance indicator measures, unit cost information and other comparative data.
- (d) Review discretionary services and seek a bigger proportion of savings from these areas.
- (e) Maximise joint working opportunities by defining a clear vision and timetable for the next three years.

**2. BUDGET STRATEGY IN 2010/11 (continued)**

- (f) Review highly subsidised services and review charges to move more towards "user pays" rather than the council taxpayer pays.
- (g) Make no general price inflation provision.
- (h) Deliver high level CAA (Comprehensive Area Assessment) outcomes.
- (i) Achieve a balanced budget.
- (j) The policy on reserves and balances approved by Council in February 2007.
- (k) The demands of the Audit Commission's Use of Resources assessment.
- With the threat of capping, the Executive and council considered the position and made changes which enabled the council to limit the council tax increase to 2.43%.

**3. DIFFERENCES BETWEEN PLANS AND OUTTURN FOR 2009/10**

The purpose of this statement is to give an indication in broad terms of the main differences between plans and outturn for 2009/10 for General Fund and Housing Services and the reasons for those differences.

**3.1. General Fund Revenue Expenditure**

The main components of the General Fund actual expenditure and income and how these compare with budgets is set out below:

	Original Estimate	Approved Estimate	Actual	Difference from Approved
	£ ' 000	£ ' 000	£ ' 000	£ ' 000
<b>Expenditure</b>				
Net expenditure (excluding Parish precepts)	21,896	21,896	21,019	-877
Add : Parish precepts	565	565	565	0
<b>Total Expenditure</b>	<b>22,461</b>	<b>22,461</b>	<b>21,584</b>	<b>-877</b>
<b>Income</b>				
Revenue support grant	2,420	2,420	2,420	-
NNDR allocation	10,486	10,486	10,486	-
Met by local council taxpayers	9,555	9,555	9,555	-
<b>Total Income</b>	<b>22,461</b>	<b>22,461</b>	<b>22,461</b>	<b>-</b>
<b>Deficit / surplus(-) for the year (i.e. amount funded from balances)</b>	<b>0</b>	<b>0</b>	<b>-877</b>	<b>-877</b>
Balance brought forward	1,632	1,632	1,632	-
<b>Balance carried forward</b>	<b>1,632</b>	<b>1,632</b>	<b>2,509</b>	<b>-877</b>

The actual surplus of £877k agrees with the figure at the top of p.14 (Statement of Movement on General Fund Balance). The income agrees with the sources of finance at foot of p.13 & note 4 on p.18, except for the £15k share of the collection fund surplus shown on p.14. To reconcile to £21,584k total expenditure above: add £37,041k net operating expenditure on p.13 less £14,722k at the foot of p.14, less £15k reversal of share of collection fund surplus on p.14, less £64k LABGI grant, £73k Area based grant and £583k Housing & planning delivery grant on p.18.

<b>The overall position for the financial year 2009/10 was as follows:</b>	<b>£ ' 000</b>
Original Budget (excluding Parish Precepts)	21,896
Actual expenditure	21,019
Net underspend	<u>-877</u>

**Major variations between Actual and Approved Budget were:** £ ' 000      £ ' 000

**Underspendings and additional income**

Parking - savings on NDR (-73), contract (-95) & other expenditure	-209
Pay Award claw-back	-200
Reduced interest payable (-107), minimum revenue provision (-82)	-189
Staff savings etc-Central Services (-104) & ICT & Contact Cnt (-60)	-164
On-Street parking - savings	-124
Private sector leasing - income surplus	-114
Staff savings - Finance division	-111
DC Planning Delivery grant - services savings	-93
Contingency not utilised (-50) & Superannuation backfunding (-40)	-90
Car park income	-83
Non staffing 2.5% efficiency savings excess	<u>-80</u>

## 3.1. General Fund Revenue Expenditure (continued)

<b>Major variations between Actual and Approved Budget (continued):</b>		<b>£ ' 000</b>
<b>Underspendings and additional income (con)</b>	b/f from previous page	-1457
Legal & Democratic - staff savings (-36) & costs recovered (-19)	-55	
Policy & improvement - staff savings	-52	
Other savings (Chief Executive -91, Corporate Services -142)	-233	
Other savings (Environment -137, Community services -185)	-322	
		<u>-662</u>
<b>Offset by : Income shortfalls</b>		<u>-2119</u>
Commercial and Industrial estate rent income shortfall	290	
Land charges income shortfall	59	
Development control fees shortfall	47	
<b>and Overspendings</b>		<u>396</u>
Document Imaging service contracts (89) General photocopiers (34)	123	
Contribution to Benefits overpayments reserve	102	
Contribution to restructure reserve	100	
Council tax - costs recovered (54), Discretionary rate relief (25)	79	
Recharges to Non General Fund	77	
Marlowe Theatre - pensions, trading loss, performing rights	76	
Reduced contribution from VAT reserve	72	
Environment & St Scene - departmental costs	69	
Other (Chief Executive 82, Environment 55, Corporate 11)	148	
		<u>846</u>
<b>NET UNDERSPEND</b>		<u><u>-877</u></u>

## 3.2. Housing Revenue Expenditure

The main components of the Housing Revenue Account actual expenditure and income and how these compare with budgets is set out below:

	Original Estimate	Approved Estimate	Actual	Difference from Original
	£ ' 000	£ ' 000	£ ' 000	£ ' 000
<b>Expenditure</b>				
Repairs and maintenance	4,394	4,394	4,531	137
Supervision and management etc. (incl. rent, rates & contribution to reserves & bad debt provision)	6,082	6,082	5,979	-103
Housing subsidy payable	6,140	6,140	5,358	-782
Interest and similar charges	434	434	427	-7
Depreciation charge plus MRR transfer	3,829	3,829	3,829	0
Capital expenditure charged to revenue	2,838	4,019	4,439	420
<b>Total Expenditure</b>	<b>23,717</b>	<b>24,898</b>	<b>24,563</b>	<b>-335</b>
<b>Income</b>				
Gross rent income	20,658	20,658	19,724	934
Charges for services and other income	1,505	1,505	1,240	265
Interest on mortgages and balances	106	106	135	-29
<b>Total Income</b>	<b>22,269</b>	<b>22,269</b>	<b>21,099</b>	<b>1,170</b>
<b>Surplus(-) / deficit for the year</b>	<b>1,448</b>	<b>2,629</b>	<b>3,464</b>	<b>835</b>
Balance brought forward	5,552	5,790	5,790	-
<b>Balance carried forward</b>	<b>4,104</b>	<b>3,161</b>	<b>2,326</b>	<b>835</b>

Housing resource accounting introduced the need to charge depreciation on council dwellings which was initially covered by additional housing subsidy. The deficit of £3,464k agrees to p.44. Note : MRR = major repairs reserve.

## 3.3. Capital Expenditure

Capital expenditure relates to spending on assets which last for more than one year. The city council spent £23,433,000 on capital schemes in 2009/10. This was financed by grants, capital receipts, revenue and borrowing.

There was slippage in the general fund capital programme, particularly on the Beaney and Marlowe Theatre redevelopments and on Whitstable Castle.

Capital Expenditure	Original Estimate	Approved Estimate incl. c/f's & addns.	Actual	Difference from Approved
	£ ' 000	£ ' 000	£ ' 000	£ ' 000
Housing capital	6,991	8,192	8,592	400
Coast protection capital	1,280	544	562	18
Other general fund capital	25,050	24,176	14,279	-9,897
<b>Total Capital Expenditure</b>	<b>33,321</b>	<b>32,912</b>	<b>23,433</b>	<b>-9,479</b>

#### 4. FUTURE CAPITAL EXPENDITURE

With the advent of prudential borrowing, the ability of the council to continue with its programme of general fund capital expenditure is not solely dependent on the utilisation of capital receipts, grants and borrowing approvals, although a programme of disposals is necessary as well. The revenue effects of future borrowing are reflected in the council's four-year revenue projection.

#### 5. BORROWING

The council's long-term debt outstanding increased from £20.5m in March 2009 to £25.5m in March 2010, whilst its investments decreased from £33.8m to £16.8m (excluding accrued interest - see note 26) - a decrease in net investments of £22m. Over 99% of the council's debt is with the Public Works Loan Board and all of its investments are managed internally. The average interest rate for new long-term borrowing in the year was 2.64%.

#### 6. PENSIONS LIABILITY

Since 2004/05 the council has had to show in its accounts the value of its attributed share of the Kent County Council Pension Fund. This value is to be assessed by the actuary in accordance with very prescribed accounting rules. The council's net liability has increased from £46.6 million to £89.2 million at 31 March 2010, an increase of £42.6 million. The actuaries have advised that whilst asset returns were favourable in 2009/10, it was the methodology that has to be used to determine the value of the pensions liabilities, that has led to the increased deficit.

Accounting standard FRS17 requires the liabilities to be valued using assumptions based on gilt and corporate bonds yield. The yield in excess of expected inflation (which in turn is based on gilt yields) from corporate bonds reduced from 3.7% to 1.5% during the year, in part due to the impact of quantitative easing and other technical factors on bond and gilt markets. However, the assets of the Pension Fund are invested for the longer term, with only a small percentage invested in corporate bonds. The return earned by the fund during the year was around 35%.

FRS17 does not directly impact on the actual level of employer contributions paid to the Pensions 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 in the fund is set out in more detail in note 13 on pages 21/22 of the statement. 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.

#### 7. CONCLUSION

In a regime of tight revenue controls imposed by the Government, the city council has substantially achieved its revised budget aims. There is a net general fund underspend, one of the factors being the restrictions on filling vacant posts and the lower pay award. The HRA is overspent due to income shortfalls due to the government decision to reduce guideline rents and also re the funding of capital expenditure from revenue. There are underspendings in capital which result from slippage in programmes (which will be carried forward) or which reflect the cautious attitude to spending which is warranted in the circumstances.

Finally, I take the opportunity to thank, in particular, the staff of my department for their continued efforts to safeguard the council's financial position. Thanks are also due to other directors and their staff who have co-operated in producing this result, and to the staff who have assisted in the production of the Statement of Accounts.

## STATEMENT OF ACCOUNTING POLICIES

### 1. GENERAL PRINCIPLES

The accounting convention adopted is historical cost as modified by the revaluation of certain categories of tangible fixed assets.

The accounts are prepared in accordance with the following fundamental qualitative principles:

Relevance, Reliability, Comparability and Understandability.

The following accounting concepts have been given precedence:

- i) Materiality – i.e. is the financial information significant enough to justify its inclusion in the financial statement?
- ii) Going concern – the accounts are prepared on the assumption that the authority will continue in existence for the foreseeable future.
- iii) Accruals – the financial statements, other than the cash flow statement, have been prepared on an accrual basis i.e. non-cash effects of transactions are reflected in the accounting period in which those effects are experienced and not in the period in which any cash is received or paid.
- iv) Legislative requirements – the statements conform to the “Code of Practice on Local Authority Accounting in the United Kingdom 2009 - A Statement of Recommended Practice” (the 2009 SORP), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This is recognised by statute [The Accounts and Audit Regulations 2003 and by sections 41 and 42 of the Local Government and Housing Act 1989] as representing proper accounting practices. This includes compliance with the Best Value Accounting Code of Practice (BVACOP) which was introduced with effect from 1 April 2000. The code is based on both approved accounting standards, known as Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs) approved by the Accounting Standards Board.

### 2. INTANGIBLE FIXED ASSETS

Expenditure on assets that do not have physical substance, but are identifiable and controlled by the council (e.g. software licences) is capitalised when it will bring benefits to the council for more than one financial year. The balance is amortised (i.e. written-down) to the relevant service revenue account on a straight-line basis over 5 years. Intangible assets are included in the balance sheet at historical costs, net of the amount written-down to revenue.

### 3. TANGIBLE FIXED ASSETS

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

#### 3.1 Recognition and accruals

All expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the council and the services that it provides for more than one financial year.

#### 3.2 Valuation methods

Fixed assets are valued 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). Fixed assets are classified into groupings required by the 1993 Code of Practice on Local Authority Accounting. They have been valued on the following bases:

## STATEMENT OF ACCOUNTING POLICIES (continued)

- land, operational properties and other operational assets are included in the balance sheet at the lower of net current replacement cost and net realisable value.
- council dwellings are included on an open market basis but discounted to allow for the "Right to Buy" valuations.
- non-operational assets, i.e. investment properties and assets that are surplus to requirements, are included in the balance sheet at the lower of net current replacement cost and net realisable value.
- infrastructure assets and community assets are included in the balance sheet at historical costs, net of depreciation. If historical cost information was not available, the current cost has been discounted back to the date of acquisition, using the retail price index.
- assets under construction are valued as the cleared site with planning permission for the development.

Net current replacement cost is assessed as:

- non-specialised operational properties – existing use value
- specialised operational properties – depreciated replacement cost
- investment properties and surplus assets – market value.

### 3.3 Revaluations

Subsequent revaluations of fixed assets are planned at five yearly intervals, for land and buildings, community assets and investment properties, although material changes to asset valuations will be adjusted in the interim period, as they occur. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

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

### 3.4 Impairment

The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- a. where attributable to the clear consumption of economic benefits – the loss is charged to the relevant revenue account
- b. otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account, but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

### 3.5 Disposals (and Capital Receipts)

When an asset is disposed of, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account 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.



## STATEMENT OF ACCOUNTING POLICIES (continued)

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. (It is shown in the statements as "Contribution to housing pooled capital receipts"). 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 Statement of Movement on the General Fund Balance.

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

### 4. DEPRECIATION

FRS 15 [Tangible fixed assets] introduced a major change relating to depreciation from 1 April 2000 (and was extended to include council dwellings for 2001/02). This requires that assets other than non-depreciable land and investment properties have to be depreciated.

Depreciation is provided for assets with a finite useful life (except for investment properties) according to the following policy:

- dwellings, other operational buildings, infrastructure and equipment are depreciated unless the amount involved is not material.
- newly acquired assets are depreciated from the date of acquisition (where available) nearest the end of the month, although assets in the course of construction are not depreciated until they are brought into use.
- depreciation is calculated using the straight-line method over the life of the asset as estimated by the valuer.

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

### 5. (GOVERNMENT) GRANTS AND CONTRIBUTIONS

Where the acquisition of a depreciating fixed asset (with a finite useful life) is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is credited initially to the Government grants deferred account (see note 27 to the core financial statements). The balance is then written-down to revenue over the useful life of the asset, to match the depreciation charged on the asset to which it relates.

### 6. CHARGES TO REVENUE FOR FIXED ASSETS

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

- i) depreciation attributable to the assets used by the relevant service.
- ii) impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service, and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.
- iii) amortisation of intangible fixed assets attributable to the service.

## STATEMENT OF ACCOUNTING POLICIES (continued)

The council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue (known as the "minimum revenue provision") to contribute towards the reduction in its overall borrowing requirement. (This is equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance). Depreciation, impairment losses and amortisations are therefore replaced by the minimum revenue provision in the Statement of Movement on the General Fund Balance. The difference between the two is credited or debited to the Capital Adjustment Account.

### **7. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE**

Expenditure incurred during the year that may be capitalised under statutory provisions, but which does not result in the creation of tangible assets e.g. improvement grants made and feasibility studies etc, has been charged as expenditure to the relevant service revenue account in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of council tax.

### **8. LEASES**

#### **8.1 Finance Leases**

Where assets were acquired under finance leases, the leasing rentals payable are charged to revenue. The cost of the assets and the related liability for future rentals payable are not shown in the balance sheet (since the value outstanding is non material), but are disclosed in note 32 to the core financial statements.

#### **8.2 Operating Leases**

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

### **9. FINANCIAL LIABILITIES (Borrowings)**

**9.1** Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For the borrowings that the council has, this means that the amount shown in the Balance Sheet is the outstanding principal repayable (plus accrued interest), and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement. For the disclosure note regarding fair value (note 38), the council has based its fair value report on the comparable new borrowing / deposit rate for the same financial instrument from a comparable lender. A consistent approach has been applied to assets and liabilities.

#### **9.2 Repurchase of Borrowing**

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments (loans), the premium or discount is respectively deducted from or added to the amortised cost of the new

## STATEMENT OF ACCOUNTING POLICIES (continued)

or modified loan and the write-down to the Income and Expenditure Account 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 Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The difference between the amounts charged to the Income and Expenditure Account and the net charge required against the General Fund Balance, is a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

### 10. FINANCIAL ASSETS (Investments)

Financial assets are classified into two types:

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

#### 10.1 Loans and receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the investments that the council has made, this means that the amount shown in the Balance Sheet is the outstanding principal receivable (plus accrued interest), and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

In the case of investments with Icelandic banks, the amount shown in the Balance Sheet is the outstanding principal receivable plus accrued interest less impairment where the impairment has been calculated in accordance with the guidance set out in LAAP Bulletin 82. Additional disclosures are made in notes 26 and 39 to the core financial statements.

#### 10.2 Soft Loans

However, the council has made a number of loans to voluntary organisations (and Active Life) at less than market rates (known as soft loans). When soft loans are made, a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the loan, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a higher effective rate of interest than 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 actual interest receivable for the financial year. The difference is credited or debited to the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

#### 10.3 Available-for-sale Assets

Available-for-sale assets are initially measured and carried in the Balance Sheet at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account 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 Income and Expenditure Account when it becomes receivable by the Council.

## STATEMENT OF ACCOUNTING POLICIES (continued)

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.

An example of an available-for-sale asset is an investment held with a fund manager, however the council no longer has any investments with fund managers and so does not hold any investments that fall into this category.

### 11. CURRENT ASSETS AND LIABILITIES

#### 11.1 Debtors and Creditors

The revenue and capital accounts of the council are maintained on an accruals basis in accordance with the Code of Accounting Practice and standard accounting practice. That is, sums due to or from the council during the year are included, whether or not the cash has actually been received or paid in the year, by recording a debtor or creditor in the Balance Sheet. An exception to this principle relates to electricity and similar quarterly payments that are charged at the date of meter reading rather than being apportioned between financial years. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

#### 11.2 Stocks

Stocks are included in the balance sheet at actual cost or net realisable value if lower.

### 12. RESERVES

The council's 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. The purposes of the council's earmarked reserves are explained in note 35e to the core financial statements. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in the Income and Expenditure Account. An appropriation is made from the reserve back to the General Fund Balance so that there is no impact on council tax.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits. These do not represent usable resources for the council.

### 13. COSTS OF SUPPORT SERVICES (CENTRAL DEPARTMENTS' EXPENSES)

All costs of overheads and support costs are fully allocated to services in proportion to the benefits received. The bases of allocation used for the main costs of overheads and support costs are outlined below:

<b>Cost</b>	<b>Basis of Allocation</b>
Central Departments (Finance, Chief Executive's)	Estimated time spent by staff
Administrative Buildings	Area occupied
Computing	Usage

## STATEMENT OF ACCOUNTING POLICIES (continued)

The only exceptions to the principle of full allocation to services are:

Corporate and Democratic Core – holds costs relating to the council's status as a multi-functional, democratic organisation.

Non Distributed Costs – holds the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Income and Expenditure Account, as part of Net Cost of Services.

### 14. PENSION COSTS

The pension costs that are charged to the council's accounts in respect of its employees are equal to the contributions paid to the funded pension scheme for these employees. These contributions were based on formal triennial actuarial valuations. Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis.

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

- i) The liabilities of the Kent pension scheme attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of earnings for current employees.
- ii) Liabilities are discounted to their values at current prices, using a discount rate based on the indicative rate of return on the iBoxx AA Over 15 year Corporate Bond index, at the FRS17 valuation date.
- iii) The assets of the Kent pension fund attributable to the council are included in the balance sheet at their fair value:
  - i) Quoted securities – current bid price
  - ii) Unquoted securities – professional estimate
  - iii) Unitised securities – current bid price
  - iv) Property – market value
- iv) The change in the net pensions liability is analysed into seven components:
  - i) Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked.
  - ii) Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.
  - iii) Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account

## STATEMENT OF ACCOUNTING POLICIES (continued)

### 14. PENSION COSTS (continued)

- iv) Expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account
- v) 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 Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- vi) 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 Statement of Total Recognised Gains and Losses
- vii) Contributions paid to the Kent pension fund – cash paid as employer's contributions to the pension fund.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund (including accruals).

### 15. VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs, and VAT paid is recoverable from them.

### 16. CHANGES RE TREATMENT OF COLLECTION FUND TRANSACTIONS

The first paragraph of the explanatory foreword on page 1 sets out the different treatment of council tax and business rate transactions under the 2009 SORP.

**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2010**

2008/09 Net Expenditure As restated		2009/10 Gross Expenditure	2009/10 Income	2009/10 Net Expenditure
£' 000		£' 000	£' 000	£' 000
	<b>EXPENDITURE ON SERVICES</b> (Note 1)			
	<b>Cultural, environmental &amp; planning services</b>			
11,273	Culture and heritage (footnote 5)	4,041	-1,744	2,297
4,134	Recreation, sport and open spaces	5,527	-703	4,824
991	Tourism	797	-197	600
863	Coast protection	1,804	-970	834
2,770	Waste collection and disposal	3,277	-498	2,779
4,623	Other environmental services	5,434	-704	4,730
4,201	Planning & development services	6,821	-2,665	4,156
	<b>Highways &amp; transport services</b>			
212	Highways	586	-500	86
491	Parking services, public transport & harbour	9,045	-7,766	1,279
	<b>Housing services</b> (footnote 5)			
54,969	Housing Revenue Account (Note 2)	28,307	-21,024	7,283
14	Housing benefits payments & administration	39,082	-39,082	0
1,213	Other housing services (non HRA)	3,746	-3,057	689
	<b>Central services</b>			
1,031	Local tax collection costs	1,511	-553	958
236	Council tax benefits	10,605	-10,292	313
392	Other central services	710	-358	352
4,611	<b>Corporate and Democratic Core</b> (footnote 5)	3,391	-577	2,814
1,170	<b>Non Distributed Costs - Pensions</b> (Note 13)	145	0	145
10,912	- Impairment losses re non-operational assets	1,801	0	1,801
104,106	<b>NET COST OF SERVICES</b>	126,630	-90,690	35,940
	<b>Corporate income and expenditure</b>			
-400	Net gain(-) / loss on the disposal of fixed assets	0	-388	-388
678	Parish council precepts & drainage board levy	695	0	695
-3,082	Surplus from trading operations (Note 3)	929	-3,873	-2,944
527	Contribn. of housing capital receipts to govt. pool	641	0	641
2,261	Interest payable and similar charges (Note 37)	969	0	969
-2,396	Interest and investment income (Note 37)	6	-963	-957
2,710	Pensions interest cost and expected return on pension assets (Note 13)	3,470	0	3,470
-2,891	Exceptional item - VAT refund from HM Revenue and Customs. (Note 5)	0	-385	-385
101,513	<b>NET OPERATING EXPENDITURE</b>	133,340	-96,299	37,041
	<b>Sources of finance</b>			
-9,133	Demand on the Collection Fund (Note 7)			-9,570
-12,930	General government grants (Note 4)			-13,626
<b>79,450</b>	<b>SURPLUS (-) / DEFICIT FOR THE YEAR</b>			<b>13,845</b>

The Income and Expenditure Account shows the council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last year. However, the authority is required to raise council tax on a different accounting basis, the main differences being:

- 1) Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- 2) The payment of a share of housing capital receipts to the Government counts as a loss in the Income and Expenditure Account, but is met from the usable capital receipts balance rather than council tax.
- 3) Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.
- 4) The above includes the notional profit from the sale of fixed assets compared to their net book value. The major item in 2009/10 is the "notional profit" on the sale of council houses above the book valuation, which is discounted to 45% to reflect existing use for social housing. This is reversed out in the next statement.
- 5) The main reason for the deficit this year is again that there is an impairment charge of £15,317k (£79,539 in 2008/09) which is reversed out in the next statement. This is distributed in the net cost of services, (mainly Housing Revenue Account, Parking services, Non-operational assets, Recreation and open spaces, and Culture and heritage) which reflects some further falls in values in general fund assets; and council dwellings which have been taken out of debit in preparation for new build, or where the assessed value of the improvements is less than actual expenditure.
- 6) The previous year's deficit of £79,458k has been reduced by £8k because the figure for the Demand on the Collection Fund has increased from £9,125k to £9,133k as a result of the changes to collection fund accounting. This additional £8k has been reversed out by an addition to the following statement.

**STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE for the YEAR ENDED 31 MARCH 2010**

The General Fund Balance compares the council's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure. This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

2008/09 Net Expenditure As restated		2009/10 Net Expenditure
£' 000		£' 000
79,450	Surplus (-) / Deficit for the year on the Income & Expenditure Account	13,845
-78,740	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year.	-14,722
710	<b>Increase (-) / Decrease in General Fund Balance for the year</b>	-877
-2,342	<b>GENERAL FUND BALANCE B/F AT 1 APRIL</b>	-1,632
-1,632	<b>GENERAL FUND BALANCE C/F AT 31 MARCH</b>	-2,509

**RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE**

2008/09 Net Expenditure As restated		2009/10 Net Expenditure
	<b>Amounts included in the Income and Expenditure Account, but required by statute to be <u>excluded</u> when determining the Movement on the General Fund Balance for the year.</b>	
£' 000		£' 000
-69	Amortisation of intangible fixed assets.	-56
-2,784	Depreciation of fixed assets.	-2,403
-79,539	Impairment of fixed assets.	-15,317
-1,046	Impairment of financial assets (investments)	419
598	Government grants deferred and other capital contributions written out to revenue.	674
-897	Revenue exp'd. funded from capital under statute (Note 16)	-712
-49	Repayments of Soft Loans and Housing Act Advances from capital resources.	0
400	Net gain / loss(-) on sale of fixed assets.	388
352	Difference between amounts debited/credited to the I&E a/c and amounts payable/receivable to be recognised under statutory provisions re soft loans and premiums on the early repayment of debt.	164
8	Reversal of the difference between the council's share of the cumulative surplus on the collection fund at the end of the year compared to the beginning of the year.	15
-6,030	Net charges made for retirement benefits in accordance with FRS17. (Note 13)	-5,105
<b>-89,056</b>		<b>-21,933</b>
	<b>Amounts <u>not</u> included in the Income and Expenditure Account, but required by statute to be <u>included</u> when determining the Movement on the General Fund Balance for the year.</b>	
816	Minimum revenue provision for capital financing	869
3,805	Capital expenditure charged in-year to General Fund Balance	4,976
-527	Contribution from usable capital receipts reserve to meet payments to the Housing Capital Receipts Pool	-641
4,480	Employer's contributions payable to the Kent Pension Fund and retirement benefits payable direct to pensioners(Note 13)	4,653
<b>8,574</b>		<b>9,857</b>
	<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year.</b>	
-1,897	Transfer to / from (-) HRA balances	-3,464
1,076	Transfer to / from major repairs reserve (Note 3 to HRA)	1,102
2,563	Net transfer to / from earmarked reserves (Note 35e)	-284
<b>1,742</b>		<b>-2,646</b>
<b>-78,740</b>	<b>Net additional amount required to be debited or credited to the General Fund balance for the year.</b>	<b>-14,722</b>



## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (STRGL)

This statement, introduced by the 2006 code, brings together all the gains and losses of the council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of assets and the re-measurement of the net liability to cover the cost of retirement benefits.

2008/09 As restated	STRGL	2009/10
<b>£' 000</b>		<b>£' 000</b>
79,450	Surplus (-) / deficit for the year: - Income and Expenditure Account	13,845
75	Surplus (-) / loss arising on revaluation of fixed assets (see note 35a to core financial statements)	-20,716
3,820	Actuarial gains (-) / losses on pension fund assets & liabilities (see note 13 to core financial statements for details)	42,214
<b>83,345</b>	<b>Total recognised gains (-) and losses</b>	<b>35,343</b>

This reconciles to the change in the "Total Net Worth" of the balance sheet as follows:

As restated	Total Net Worth		£' 000
<b>£' 000</b>			<b>£' 000</b>
365,428	At 31 March 2009 (**)	At 31 March 2010	330,085
449,614	At 31 March 2008 (\$\$)	At 31 March 2009 (**)	365,428
<b>84,186</b>	Change in Total Net Worth		<b>35,343</b>
-841	Less : reduction to opening balance of the capital adjustment account (note 35c) contra government capital grants - deferred account (note 27) re grants received in previous years for non-depreciating assets.		0
<b>83,345</b>	Adjusted change in Total Net Worth		<b>35,343</b>

(\*\*) At 31 March 2009 after restatement. £365,612k as per the 2008/09 statement less £184k net reduction relating to the change in accounting for collection fund transactions.

These changes to the balance sheet comprise a £4,035k reduction in debtors, offset by a £1,647k reduction in bad debts provision, offset by a £2,204k reduction in creditors. The net £184k reduction in the top half of the balance sheet is balanced by the removal of the collection fund balance of £211k and the insertion of a new balance of £27k for the collection fund adjustment account in the bottom half of the balance sheet.

(\$\$) At 31 March 2008 after restatement. £449,744k as per the 2008/09 statement less £130k net reduction relating to the change in accounting for collection fund transactions. This equates to the removal of the collection fund balance of £149k and the insertion of a new balance of £19k for the collection fund adjustment accounts in the bottom half of the balance sheet.

**BALANCE SHEET AS AT 31ST MARCH**

2009 As restated				2010	
£ ' 000	£ ' 000		Notes	£ ' 000	£ ' 000
98		<b>NET FIXED ASSETS</b>			
		Intangible assets	14 & 19	43	
		Tangible assets	14 - 19		
		Operational assets-			
257,093		Council dwellings		266,164	
54,223		Other land and buildings		55,649	
28,048		Infrastructure assets		27,682	
1,974		Vehicles, plant and equipment		2,546	
1,812		Community assets		1,810	
		Non-operational assets-			
68,771		Investment properties		70,629	
8,165		Assets under construction		16,059	
4,674		Surplus assets, held for disposal		4,733	
	424,858	<b>TOTAL FIXED ASSETS</b>			445,315
	762	Long-Term Debtors	21		729
	425,620	<b>TOTAL LONG-TERM ASSETS</b>			446,044
		<b>CURRENT ASSETS</b>			
128		Stocks in hand	22	93	
9,670		Debtors	23	17,511	
-1,872		Less : Provision for Bad Debts	24	-2,030	
517		Payments in Advance		704	
34,943		Investments (Short-term)	26	16,863	
1,088		Cash in hand		255	
	44,474				33,396
	470,094	<b>TOTAL ASSETS</b>			479,440
		<b>CURRENT LIABILITIES</b>			
11,231		Creditors	25	10,776	
694		Deposits & receipts in advance		756	
7,506		Short-term borrowing	38	7	
0		Bank overdraft		1,250	
	-19,431				-12,789
	450,663	<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			466,651
		<b>LONG-TERM LIABILITIES</b>			
20,668		Long-term borrowing	39	25,688	
17,987		Government grants deferred	27	21,632	
46,580		Liability related to defined benefit pension scheme	13	89,246	
	-85,235				-136,566
	365,428	<b>TOTAL ASSETS LESS LIABILITIES</b>			330,085
	£ ' 000	<b>FINANCED BY:</b>	34		£ ' 000
	7,965	Revaluation reserve	35a	28,647	
	374,630	Capital adjustment account	35c	366,129	
	-2,071	Financial instruments adjustm'nt account	35b	-1,488	
	27	Collection fund adjustment account (see p.49)		42	
	10,396	Usable capital receipts reserve	35d	7,830	
	-46,580	Pensions reserve	13	-89,246	
	66	Deferred capital receipts	28	47	
	188	Major repairs reserve		188	
	13,385	Earmarked reserves	35e	13,101	
		Revenue Balances			
		General Fund		2,509	
1,632		Housing Revenue Account		2,326	
5,790					
	7,422				4,835
	365,428	<b>TOTAL NET WORTH</b>			330,085

The previous year's figures have been restated to reflect the change in accounting policy regarding collection fund transactions under the 2009 SORP. There is a net reduction of £184k to total assets less liabilities and to the total net worth. Full details are set out at the foot of page 15.

**CASH FLOW STATEMENT**

2008/09 As restated		2009/10		
£' 000		£' 000	£' 000	£' 000
	<b>REVENUE ACTIVITIES</b>			
	<b>CASH OUTFLOWS</b>			
25,524	Cash paid to and on behalf of employees	23,934		
39,888	Other operating cash payments	39,913		
19,343	Housing Benefit paid out	24,818		
657	Payments to the capital receipts pool	574		
85,412			89,239	
	<b>CASH INFLOWS</b>			
7,091	Net rents (after rebates)	6,667		
8,027	Council tax receipts (council share only)	8,384		
11,024	Non-domestic rate receipts from national pool	10,486		
1,535	Revenue support grant	2,420		
31,986	DWP grants for housing rebates	37,199		
8,117	DWP grant for council tax rebates	8,625		
4,264	Other government grants (Note 43)	6,554		
22,650	Cash received for goods and services	18,115		
5,659	Other operating cash receipts	449		
-100,353			-98,899	
-14,941	<b>REVENUE ACTIVITIES NET CASH FLOW (Note 40)</b>			-9,660
	<b>RETURNS ON INVESTMENTS &amp; SERVICING OF FINANCE</b>			
	<b>CASH OUTFLOWS</b>			
1,296	Interest paid		1,051	
	<b>CASH INFLOWS</b>			
-2,100	Interest received		-2,126	
-804	<b>NET INTEREST</b>			-1,075
	<b>CAPITAL ACTIVITIES</b>			
	<b>CASH OUTFLOWS</b>			
15,536	Purchase of fixed assets	20,932		
600	Soft Loans	42		
16,136			20,974	
	<b>CASH INFLOWS</b>			
2,757	Sales of fixed assets	1,047		
3,768	Capital grants received (Note 44)	1,841		
49	Other capital cash receipts	84		
-6,574	(Principal repayments of Soft Loans etc)		-2,972	
9,562	<b>CAPITAL ACTIVITIES NET CASH FLOW</b>			18,002
-6,183	<b>NET CASH INFLOW/OUTFLOW BEFORE FINANCING</b>			7,267
	<b>MANAGEMENT OF LIQUID RESOURCES</b>			
-1,553	Net increase / decrease in short-term investments (Note 41)			-17,336
	Net increase / decrease in other liquid resources			
7,353	- Council tax receipts paid to major preceptors less receipts		7,900	
-1,008	- NDR receipts under / over paid to the government		1,753	
4,792				9,653
	<b>FINANCING</b>			
	<b>CASH OUTFLOWS</b>			
8,505	Repayments of long-term borrowing (Note 41)		0	
0	Repayments of short-term borrowing (Note 41)		7,499	
	<b>CASH INFLOWS</b>			
-2,250	New long-term loans raised (Note 41)		-5,000	
-7,499	New short-term loans raised (Note 41)		0	
-1,244	<b>FINANCING NET CASH FLOW</b>			2,499
-2,635	<b>NET INCREASE (-) / DECREASE IN CASH (Note 42)</b>			<b>2,083</b>

The previous year's comparatives have been restated according to the 2009 SORP in order to reflect the change in accounting for collection fund transactions. Payments and receipts relating to major preceptors and the government have been replaced by a new heading: net increase/decrease in other liquid resources.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 1. EXPENDITURE ON SERVICES

The analysis of services contained in this summary account follows the Best Value Accounting Code of Practice (BVACOP). Capital charges for depreciation are included in service expenditure.

### 2. HOUSING REVENUE ACCOUNT (HRA)

Reconciliation of figures in the I&E statement to HRA net cost of services in 2008/09 & 2009/10.

2008/09 Net		2009/10 Expenditure	2009/10 Income	2009/10 Net
£' 000		£' 000	£' 000	£' 000
54,966	Expenditure & income per HRA Accounts	28,255	-20,967	7,288
57	Add: Transfers from reserves	52	0	52
-54	Less: Transfers to reserves	0	-57	-57
<b>54,969</b>	<b>TOTAL</b>	<b>28,307</b>	<b>-21,024</b>	<b>7,283</b>

### 3. TRADING UNDERTAKINGS

The council operates the following trading undertakings:

2008/09 Net	Name of Trading Undertaking	2009/10 Expenditure	2009/10 Income	2009/10 Net
£' 000		£' 000	£' 000	£' 000
67	<b>Cultural, Environmental &amp; Planning Services</b> Markets (incl. boot fairs)	303	-217	86
-515	<b>Trading Services</b> Industrial Estates	121	-735	-614
-2,634	Other Estates	505	-2,921	-2,416
<b>-3,082</b>	<b>TOTAL</b>	<b>929</b>	<b>-3,873</b>	<b>-2,944</b>

### 4. GENERAL GOVERNMENT GRANTS

Under the 2009 SORP, only a single line for government grants can be shown in the income and expenditure statement, so that full details have to be set out in this separate note.

2008/09		2009/10
-1,535	Revenue support grant	-2,420
-11,024	Distribution from non-domestic rate pool	-10,486
-299	LABGI grant	-64
-72	Area based grant	-73
see footnote	Housing & planning delivery grant	-583
<b>-12,930</b>	<b>Total of General Government Grants</b>	<b>-13,626</b>

The Housing & planning delivery grant was classified under Corporate & Democratic core in the 2008/09 statement, but is now classified as a general government grant.

**5. EXCEPTIONAL INCOME ITEM**

In 2008/09 the council was successful in a "Fleming case" VAT claim against H M Revenue and Customs relating to cultural income 1990 to 1996, parking control notice income and cemetery income 1973 to 1996. It has received £2.9 million for the claim and interest. This income is windfall income to the council and so it has been earmarked to cover any potential shortfall in the return of monies from Icelandic banks, (so the council will not need to use existing reserves) with the balance available to help balance future year's budgets. A further £385k was received in 2009/10.

**6. KENT BENEFITS PARTNERSHIP**

The council is the accountable body for the Kent Benefits Partnership. The other partnership bodies are all the district councils in Kent, Medway Unitary Authority and Kent County Council.

Total expenditure was £ 348,000 (2008/09 - £ 462,000) and total income received in the year was £343,000 (2008/09 - £ 363,000), with the balance of £5,000 (2008/09 - £99,000) due to be received next year.

**7. COLLECTION FUND**

The council has to precept on the collection fund, in the same way as Kent County Council. The actual amount transferred from the collection fund in 2009/10 was £9.555 million in line with the council's original budget. (2008/09 - £9.125 million). In accordance with the 2009 SORP, the I&E account now shows an additional £0.015 million, which is the council's share of the cumulative surplus at the year-end compared to the beginning of the year. (2008/09 - £0.008 million)

This amount includes £565,000 for Parish Precepts ( 2008/09 - £565,000).

**8. OFFICERS' EMOLUMENTS**

The number of employees whose remuneration including termination payments, but excluding employer's pension contributions, was over £50,000, in bands of £5,000 were:

Number of employees 2008/09 As restated.	Remuneration Band	Number of Employees 2009/10
13	£ 50,000 - £ 54,999	9
1	£ 55,000 - £ 59,999	8
5	£ 60,000 - £ 64,999	2
7	£ 65,000 - £ 69,999	5
0	£ 70,000 - £ 74,999	2
2	£ 75,000 - £ 79,999	2
0	£ 80,000 - £ 84,999	0
1	£ 85,000 - £ 89,999	1
1	£ 90,000 - £ 94,999	1
0	£ 95,000 - £ 99,999	0
1	£100,000 - £104,999	0
0	£105,000 - £109,999	1
1	£130,000 - £134,999	0
0	£140,000 - £144,999	0
0	£145,000 - £149,999	1
<b>32</b>	<b>TOTAL</b>	<b>32</b>

These figures include employee pension contributions.

Final row includes returning officer's election pay in 2009/10.

**9. SENIOR OFFICERS' EMOLUMENTS**

This is a new note required under the Audit and Accounts Regulations requirements for 2009/10. It includes officers with statutory responsibilities and those reporting direct to the Chief Executive.

To put these payments into context, as can be seen from earlier pages, the Council's annual revenue expenditure is £133million, its net worth in the balance sheet is £330 million and the council employs over 850 staff to provide over 70 services. It compares in size to some FTSE 250 companies. The following are from a survey of salaries published recently:

Senior civil servant £296k, University Vice Chancellor £194k, Senior BBC Executive £496k, Chief Executive of FTSE mid-250 company £411k.

**NOTES TO THE CORE FINANCIAL STATEMENTS (continued)**

**9. SENIOR OFFICERS' EMOLUMENTS (continued)**

The lowest full-time pay rate on the council's salary scale is £11k, therefore the test of the most senior salary not exceeding 20 times this rate is comfortably met.

2008/09 Salaries, fees & allowances paid or receivable.		2009/10 Salaries, fees & allowances paid or receivable.	2009/10 Employer's contribution to pension - pensionable pay multiplied by common contribution rate.
£' 000		£' 000	£' 000
134	Head of Paid Service - Chief Executive	146	28
99	Chief Financial Officer - Director of Corporate Services and Deputy Chief Executive.	104	19
75	Head of Legal & Democratic Services	75	14
	<b>Non Statutory Directors</b>		
87	Director of Community Services	88	16
94	Director of Environment	94	17
	<b>Other direct reports to Chief Executive</b>		
75	Head of Culture & Communications	75	13
68	Head of Regeneration & Economic Devel.	69	12
62	Head of Policy & Improvement	62	11

The Head of Paid Service included £10k additional income as returning officer and in the case of the Chief Financial Officer, there was a one-off honorarium of £5k. There were no other bonuses paid or receivable, no expenses allowance chargeable to UK tax paid or receivable, no amount of any compensation for loss of employment paid or receivable plus any other payment in connection with termination of employment paid to any of the above.

**10. AUDIT FEES**

The council incurred the following fees relating to external audit and inspection:

2008/09		2009/10
£' 000	Fees payable to the Audit Commission for	£' 000
115	External audit services carried out by the appointed auditor	130
0	Statutory inspection	0
35	Certification of grant claims and returns	48
<b>150</b>	<b>Total</b>	<b>178</b>

**11. MEMBERS' ALLOWANCES**

The total of members' allowances paid in the year was £ 386,500. (2008/09 - £404,600)  
Figures for PC allowances, travel & subsistence and national insurance are included from 2005/06.

**12. 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 be controlled or influenced by the council. The parties listed are related because of common control by central government and transactions with them are shown below:

	Receipts	Payments	Debtors at year-end	Creditors at year-end
	£ ' 000	£' 000	£' 000	£' 000
Central Government				
Revenue grants	66,470		4,287	
Capital grants	2,839		1,276	
Kent County Council - Precept		52,894		0
Kent Police Authority - Precept		6,940		0
Kent & Medway Fire Authority Precept		3,404		0
Kent County Council Pension Fund		4,294		417
[Payment of employer's superannuation contributions in respect of employees]				

**NOTES TO THE CORE FINANCIAL STATEMENTS (continued)**

**13. PENSION COSTS**

**Participation in pensions schemes.**

As part of the terms and conditions of its officers and other employees, the council offers retirement benefits. Although these will not be payable until employees retire, the council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlements. The council participates in the Local Government Pensions Scheme administered by Kent County Council. This is a defined benefit statutory scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. The scheme makes payments in the year to retired officers.

The actuary appointed to carry out the valuation for final accounts purposes has changed: Barnett Waddingham have taken over from Hymans Robertson.

**Transactions relating to retirement benefits.**

We recognise 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, the charge we are 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 in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year:

2008/09	Transactions in the Income and Expenditure Account	2009/10
<b>£' 000</b>	<b>Net cost of services:</b>	<b>£' 000</b>
2,150	- Current Service cost	1,490
1,010	- Past Service cost	0
160	- Losses (-) / Gains on settlements and curtailments (The above two are shown as "Non-Distributed Costs")	145
	<b>Net operating expenditure:</b>	
8,010	Interest cost of pension scheme liabilities	7,282
-5,300	Expected return on employer assets	-3,812
<b>6,030</b>	<b>Net charge to the Income and Expenditure Account</b>	<b>5,105</b>
<b>£' 000</b>	<b>Statement of movement on the General Fund Balance</b>	<b>£' 000</b>
<b>-6,030</b>	- Reversal of net charges made for retirement benefits in accordance with FRS17.	<b>-5,105</b>
	<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>	
4,130	Employer contributions payable to the scheme.	4,294
350	Unfunded benefits paid	359

In addition to the recognised gains and losses included in the Income and Expenditure Account, the following actuarial gains and losses were included in the STRGL:

<b>-3,820</b>	<b>Statement of recognised gains and losses (STRGL)</b> Actuarial Losses (-) / Gains [-59,361 + 17,147 in next two tables]	<b>-42,214</b>
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**Assets and liabilities in relation to retirement benefits.**

£' 000	Movement in Defined Benefit Obligation ("liabilities")	£' 000
<b>-116,340</b>	<b>Opening balance of Defined Benefit Obligation</b>	<b>-107,470</b>
-2,150	Current Service cost	-1,490
-1,010	Past Service cost	0
-160	Losses (-) / Gains on settlements and curtailments	-145
-1,040	Contributions by members (employees)	-1,001
4,670	Estimated benefits paid	6,072
350	Estimated unfunded benefits paid	359
-8,010	Interest cost of pension scheme liabilities	-7,282
16,220	Actuarial Losses (-) / Gains	-59,361
<b>-107,470</b>	<b>Closing balance of Defined Benefit Obligation ("liabilities")</b>	<b>-170,318</b>

**NOTES TO THE CORE FINANCIAL STATEMENTS (continued)**

**13. PENSION COSTS (continued)**

2008/09	Movement in Fair Value of employer assets	2009/10
<b>£' 000</b>		<b>£' 000</b>
<b>75,130</b>	<b>Opening balance of Fair Value of employer assets</b>	<b>60,890</b>
4,130	Employer contributions	4,294
1,040	Contributions by members (employees)	1,001
350	Contributions in respect of Unfunded Benefits	359
-4,670	Benefits paid	-6,072
-350	Unfunded benefits paid	-359
5,300	Expected return on employer assets	3,812
-20,040	Actuarial gains / losses(-)	17,147
<b>60,890</b>	<b>Closing balance of Fair Value of employer assets</b>	<b>81,072</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy.

Assets in the superannuation fund are valued at fair value, principally market value for investments, and consist of the following categories by proportion, together with their expected rate of return.

Expected L.T.Return at 31 Mar 2009	Assets value at 31 March 2009		Assets (Employer)	Expected Long Term Return at 31 March 2010	Assets value at 31 March 2010
% per annum	£ ' 000	£ ' 000		% per annum	£ ' 000
7.0	40,190		Equities	7.5	59,993
n/a	0		Gilts	4.5	811
5.4	10,350		Other bonds	5.5	11,350
4.9	5,480		Property	5.5	5,675
4.0	4,870		Cash	3.0	3,243
7.0	<b>60,890</b>	<b>0</b>	<b>Total</b>	6.9	<b>81,072</b>

2009	Net Pension Liability as at 31 March in Balance Sheet	2010
<b>£ ' 000</b>		<b>£ ' 000</b>
<b>60,890</b>	<b>Fair Value of Employer Assets (A)</b>	<b>81,072</b>
<b>-102,880</b>	<b>Present Value of Funded Liabilities (B)</b>	<b>-165,635</b>
<b>-41,990</b>	<b>Net underfunding in Funded Plans (A) - (B)</b>	<b>-84,563</b>
<b>-4,590</b>	<b>Present Value of Unfunded Liabilities (C)</b>	<b>-4,683</b>
<b>-46,580</b>	<b>Net Pension Liability (A) - (B) - (C) in Balance Sheet</b>	<b>-89,246</b>

The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. Under the requirements of FRS17, a (net) pensions liability was created in the balance sheet. However, so that FRS17 has no effect on demands on council tax, and there is no demand on earmarked reserves, the Pensions Reserve holds an equal and opposite balance. The movements in these reserves reflect the net change in pensions liability recognised in the income and expenditure account.

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



**NOTES TO THE CORE FINANCIAL STATEMENTS (continued)**

**13. PENSION COSTS (continued)**

**Historic experience gains and losses**

	<b>2007/08</b>	<b>2006/07</b>	<b>2005/06</b>
	<b>£' 000</b>	<b>£' 000</b>	<b>£' 000</b>
Difference between expected and actual return on assets.	-13,940	-530	12,200
Value of assets	75,130	82,920	77,870
<b>Percentage of assets</b>	<b>-18.6%</b>	<b>-0.6%</b>	<b>15.7%</b>
Experience gains / losses(-) on liabilities	3,720	300	-176
Total present value of liabilities	116,340	132,840	133,740
<b>Percentage of the total present value of liabilities</b>	<b>3.2%</b>	<b>0.2%</b>	<b>-0.1%</b>
<b>Actuarial gains / losses(-) recognised in STRGL</b>	<b>8,740</b>	<b>7,240</b>	<b>-2,506</b>
Total present value of liabilities	116,340	132,840	133,740
<b>Percentage of the total present value of liabilities</b>	<b>7.5%</b>	<b>5.5%</b>	<b>-1.9%</b>

Adding the actuarial gains and losses in 2008/09 and 2009/10 brings the cumulative actuarial loss to 32,560k over the 5-year period.

The employer's contributions for the year 2010/11 are estimated to be £4,562k.

**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. These liabilities have been assessed by Barnett Waddington, an independent firm of actuaries.

The long-term expected rate of return on assets in the scheme is shown three tables above next to the values of each category of asset.

Other assumptions are set out below:

<b>2008/09</b>	<b>Mortality assumptions</b>	<b>2009/10</b>
<b>Years</b>	Longevity at 65 for current pensioners:	<b>Years</b>
21.5	Men	21.5
24.4	Women	24.4
22.6	Longevity at 65 for future pensioners:	22.6
25.5	Men	25.5
25.5	Women	25.5
<b>2008/09</b>	<b>Financial assumptions</b>	<b>2009/10</b>
<b>%</b>		<b>%</b>
2.9	Rate of inflation / pension increase rate	3.9
3.9	Rate of increase in salaries	4.9
6.3	Expected return on assets	6.9
6.9	Rate for discounting scheme liabilities (discount rate)	5.5

**Balance Sheet Disclosure as at 31 March 2010 by the actuary.**

The increase in pension deficit during the year has arisen principally due to the technical increase in the valuation of liabilities. Accounting standard FRS17 requires the liabilities to be valued using assumptions based on gilt and corporate bond yields. The yield in excess of expected inflation (which in turn is based on gilt yields) from corporate bonds reduced from 3.9% to 1.5% during the year, in part due to the impact of quantitative easing and other technical factors on bond and gilt markets. Had these markets remained at their 2009 levels, then the pensions deficit would have been £59.361 million less at £29.885 million. The assets of the Kent County Council Fund are invested for the longer term, with only a small percentage invested in corporate bonds. The return earned by the Fund during the year was of the order of 35%. (2008/09: -20%)

FRS17 does not have any direct impact on the actual level of employer contributions paid to the Kent County Council Fund. Employers' levels of contribution are determined by triennial actuarial valuations which are based on the Fund's actual investment strategy (rather than being based on corporate bond yields). A triennial valuation is being carried out as at 31 March 2010 which will show a much lower level of deficit than shown by FRS17 due to the different measurement of the Fund's liabilities.

**NOTES TO THE CORE FINANCIAL STATEMENTS (continued)**

**14. FIXED ASSETS**

Following the introduction of capital accounting, fixed assets are valued using the bases set out in note 17 below, any differences being credited or debited to the fixed asset restatement account. Infrastructure assets and community assets are included in the balance sheet at historical cost, net of depreciation.

Movements in fixed assets during the year are listed in the two tables which follow:

Gross book value at 1 April		Additions	Disposals	Revaluations	Impairments	Reclassifications	Gross book value at 31 March
£' 000	<b>Intangible assets</b>	£' 000	£' 000	£' 000	£' 000	£' 000	£' 000
389	Software licences	0	-38	0	0	0	351
	<b>Tangible assets</b>						
	<b>Operational assets-</b>						
259,690	Council dwellings	8,592	-615	11,243	-10,057	0	268,853
56,412	Other land & buildings	365	0	4,496	-3,174	213	58,312
39,938	Infrastructure	578	0	0	-27	0	40,489
6,835	Vehicles, plant, furniture & equipment	1,171	-489	42	0	0	7,559
1,823	Community assets	0	0	0	0	0	1,823
	<b>Non-operational assets-</b>						
68,771	Investment properties	1,451	0	1,398	-995	4	70,629
8,165	Under construction	8,727	0	0	-616	-217	16,059
4,674	Surplus assets	0	0	507	-448	0	4,733
<b>446,697</b>	<b>TOTAL</b>	<b>20,884</b>	<b>-1,142</b>	<b>17,686</b>	<b>-15,317</b>	<b>0</b>	<b>468,808</b>

Net book value at 1 April		Depreciation					Net book value at 31 March
		Accum. 1 April	During year	Written out on disposals	Written out on revals.	Accum. 31 March	
£' 000	<b>Intangible assets</b>	£' 000	£' 000	£' 000	£' 000	£' 000	£' 000
98	Software licences	291	56	-39	0	308	43
	<b>Tangible assets</b>						
	<b>Operational assets-</b>						
257,093	Council dwellings	2,597	2,689	0	-2,597	2,689	266,164
54,223	Other land & buildings	2,189	907	0	-433	2,663	55,649
28,048	Infrastructure	11,890	917	0	0	12,807	27,682
1,974	Vehicles, plant, furniture & equipment	4,861	615	-463	0	5,013	2,546
1,812	Community assets	11	2	0	0	13	1,810
	<b>Non-operational assets -</b>						
68,771	Investment properties	0	0	0	0	0	70,629
8,165	Under construction	0	0	0	0	0	16,059
4,674	Surplus assets	0	0	0	0	0	4,733
<b>424,858</b>	<b>TOTAL</b>	<b>21,839</b>	<b>5,186</b>	<b>-502</b>	<b>-3,030</b>	<b>23,493</b>	<b>445,315</b>

The main items of capital expenditure were:	£' 000
Council dwellings	8,592
Leisure & culture schemes incl. Marlowe Theatre & Beaney	6,819
Regeneration & planning schemes & historic buildings incl. Whitstable Castle	2,058
Disabled facilities grants, housing assistance and private sector renewal.	1,557
Highways & transport	837
Coast protection	563
Public conveniences refurbishment, play areas & other environment schemes	421
I.T.Developments, harbour, interpretation centre and community development	1,216
Opportunity Purchases at Wincheap	1,370
<b>TOTAL</b>	<b>23,433</b>

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

15. FIXED ASSETS and the CAPITAL FINANCING REQUIREMENT

2008/09	Capital Expenditure and Financing	2009/10	
£ ' 000		£ ' 000	£ ' 000
25,560	<b>Opening Capital Financing Requirement</b>		27,739
	<b>Capital Expenditure in year:</b>		
13,091	Operational assets	10,705	
2,445	Non-operational assets	10,178	
0	Intangible assets	0	
1,768	Revenue expenditure funded from capital under statute	2,508	
600	Long term debtors	42	
17,904			23,433
	<b>Sources of Finance</b>		
-2,518	Capital receipts	-3,056	
-4,877	Government & other capital grants (see footnote to note 16)	-6,115	
-7,514	Revenue & reserves	-8,805	
-816	Revenue provision for repayment of loans (MRP)	-869	
-15,725			-18,845
<b>27,739</b>	<b>Closing Capital Financing Requirement</b>		<b>32,327</b>
	<b>Explanation of movements in year</b>		
0	Increase in underlying need to borrow-supported by govt.financial assistance		0
2,179	Increase in underlying need to borrow-unsupported by govt.financial assistance		4,588
2,179	<b>Increase in Capital Financing Requirement</b>		<b>4,588</b>

The rules for financing capital investment changed in line with the Prudential Code for Borrowing as from 1 April 2004. One of the main changes is that capital is now financed on an accrued basis, whereas previously only cash payments had been financed. Another change is the introduction of the capital financing requirement which is calculated from elements of the balance sheet (see below). The above table reconciles this calculation with movements during the year.

2008/09	Capital Financing Requirement calculation from balance sheet items	2009/10
£ ' 000		£ ' 000
424,858	Fixed Assets	445,315
762	Long term debtors (including soft loans at fair value)	729
240	Financial instruments adjustment account re soft loans	211
425,860		446,255
-7,965	Revaluation Reserve	-28,647
-374,630	Capital Adjustment Account	-366,129
-17,987	Government & other capital grants deferred	-21,632
-66	Deferred capital receipts	-47
<b>25,212</b>		<b>29,800</b>
2,527	Add : item A adjustment	2,527
<b>27,739</b>	<b>Adjusted closing Capital Financing Requirement</b>	<b>32,327</b>

16. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

This was a new heading in the 2008 SORP which replaced the old category of deferred charges. From 2008/09 onwards, this expenditure has to be recognised as revenue expenditure and any funding of it by grants has to be recognised as revenue income.

Net Exp'd 2008/09	Item of expenditure	Gross Exp'd	Govt. Grants	Net Exp'd
£' 000		£' 000	£' 000	£' 000
560	Improvement grants	1,542	-1,222	320
39	Historic building grants	55	0	55
1	Housing association grants	2	0	2
297	Other incl. parish council grants	909	-574	335
<b>897</b>	<b>TOTAL</b>	<b>2,508</b>	<b>-1,796</b>	<b>712</b>

The financing of this expenditure was: capital receipts £688k, grants £1,796k, revenue and reserves £24k. Adding the £1,796k to the £4,319k grants transferred to the government capital grants - deferred account (note 27), reconciles to the total capital grants applied to finance capital expenditure £6,115k (see note 15).

**NOTES TO THE CORE FINANCIAL STATEMENTS (continued)**

**17. FURTHER INFORMATION RE FIXED ASSETS IN THE BALANCE SHEET AT CURRENT VALUE**

	<b>Date of last valuation</b>	<b>Basis of valuation</b>	<b>Internal Valuer</b>
<b>Operational assets-</b>			
Council dwellings	March 2010	A	Martin Bovingdon , FRICS
Other land & buildings	April 04 - March 2010	B	Martin Bovingdon , FRICS
Non-operational assets	April 04 - March 2010	C	Martin Bovingdon , FRICS

**Bases of valuation**

- A Open market basis but discounted to allow for the "Right to buy valuations"
- B Either
  - (a) Open market value for existing use where there was sufficient evidence of market transactions for that use
  - or (b) Depreciated replacement cost (DRC) where the asset is of a specialised nature or where there is no evidence of market value of suitably comparable properties
- C Open market basis

**18. ASSETS HELD**

Canterbury City Council owned the following assets as at 31 March :

2009	<b>OPERATIONAL ASSETS</b>	2010	2009	<b>OPERATIONAL ASSETS (Con.)</b>	2010
5,294	<b>COUNCIL DWELLINGS</b>	5,228		<b>VEHICLES , PLANT,</b>	
1,236	<b>Council Garages</b>	1,236		<b>FURNITURE &amp; EQUIPMENT</b>	
	<b>LAND</b>				
2	Caravan sites	1	4	Light vans	4
3	Markets	3	1	Boats	2
1	Multi- storey car parks	1	1	Fork lift	1
36	Surface car parks	36	var.	Play area equipment	var.
12	Residents car parks	12	var.	Office equipment	var.
3	Park & Ride car parks	3		Wave, tide and recording	
1	Coach park	1	var.	equipment	var.
	<b>BUILDINGS</b>		var.	Car park CCTV machines	var.
2	Halls	2	var.	Lifeline machines	var.
0	Theatre	0	var.	Trade refuse bins	var.
2	Leisure centres	2	var.	Domestic bins	var.
2	Sports centres	2	var.	Recycling bins	var.
1	Swimming pool	1			
5	Museums	5		<b>COMMUNITY ASSETS</b>	
4	Civic/divisional offices	4	521 ac.	Parks and recreation grounds	521 ac.
1	Guildhall / Tower House	1	3	Cemeteries (land only)	3
1	Visitor information centres	1	14	Allotments	14
32	Public conveniences	31	var.	Museum exhibits and paintings	var.
8	Workshop / Stores	8	var.	Civic regalia	var.
1	Childrens centre	1	10	Historic buildings	10
2	Community centres	2			
	<b>INFRASTRUCTURE</b>			<b>NON-OPERATIONAL ASSETS</b>	
13 Mi.	of coastline, of which	13 Mi.		<b>NON-OPERATIONAL ASSETS</b>	
10 Mi.	are council responsibility	10 Mi.	3	Industrial estates	3
9 Mi.	are protected by defences	9 Mi.	2	Enterprise centres	2
2	Cliff retaining walls	2	106	Commercially let sites	109
2,700 m.	Riverside walls	2,700 m.			
var.	St.lighting & name plates	var.	59	Non commercially let sites	58
var.	Bus shelters & seats	var.	1	Harbour (Whitstable)	1
var.	Pedestrian signs	var.	2	Property awaiting development	2
4	Pedestrian areas	4	30	Surplus assets	25
var.	Footbridges	var.	7	Vacant lands	7
61,520 m.	Drains	61,690 m.	4	Assets under construction	3

**NOTES TO THE CORE FINANCIAL STATEMENTS (continued)**

**19. DEPRECIATION**

Depreciation is provided for assets with a finite useful life according to the following policy: (a) operational buildings are depreciated unless the amount involved is not material. (b) Newly acquired assets are depreciated from the date of acquisition (where available) nearest the end of the quarter, although assets in the course of construction are not depreciated until they are brought into use. (c) Depreciation is calculated using the straight-line method over the expected useful life of the asset. This is calculated for each asset on an individual basis as follows: infrastructure assets are depreciated over periods varying from 10 to 50 years, operational buildings over periods ranging from 20 to 100 years, and plant, vehicles and equipment are mainly depreciated over 5 years. Intangible assets (e.g. software licences) are amortised (i.e. written-down) to revenue on a straight-line basis over 5 years.

**20. COMMITMENTS UNDER CAPITAL CONTRACTS**

The following significant capital contracts have been entered into by the council at 31 March 2010 which involve commitments in 2010/11 and beyond:

Scheme	Estimate 2010/11	Estimate 2011/12
	£' 000	£' 000
New Marlowe Theatre contract	9,177	836
Beaney development	5,146	127
Whitstable Castle restoration work	42	0

**21. LONG-TERM DEBTORS**

Balance at 1 April	Category	Advances during year	Repaymt. during year	Write- Offs	Balance at 31 March
£ ' 000	Soft Loans (Miscellaneous Loans)	£ ' 000	£ ' 000	£ ' 000	£ ' 000
909	- Actual amount outstanding	42	-73	0	878
-240	- Adjustment to fair value	-14	42	0	-212
669	<b>Soft Loans - Fair value</b>	28	-31	0	666
66	<b>Mortgages</b>	0	-19	0	47
27	<b>Housing Act Advances</b>	0	-11	0	16
<b>762</b>	<b>TOTAL</b>	28	-61	0	<b>729</b>

The true balance for Soft Loans at 31 March 2010 of £878,000 has been reduced downwards by £212,000 (contra the Financial Instruments adjustment account) to a "fair value" of £666,000 using a discounted cash flow calculation, to reflect the fact that the repayments are interest free.

**22. STOCKS IN HAND**

31 March 2009	Category	31 March 2010
£ ' 000		£ ' 000
19	Tourist information centres	15
109	Other	78
<b>128</b>	<b>TOTAL</b>	<b>93</b>

## 23. DEBTORS

31 March 2009 as restated	Category	31 March 2010
£ ' 000		£ ' 000
1,945	Sundry debtors	2,771
3,539	Government departments	8,925
997	Other local authorities	2,368
320	Council taxpayers	323
879	Housing rents	801
0	Employee loans	0
1,990	Other	2,323
<b>9,670</b>	<b>TOTAL</b>	<b>17,511</b>

Note: Council taxpayers have been restated to show only the council's share of arrears. NDR ratepayers have been restated to nil to reflect that all income is due to the government. The net debtor due from the government is shown under government departments. This figure has increased from £313,000 to £2,135,000. The figure due from D.W.P. re Housing Benefits has increased from £1,952,000 to £4,000,000 and from the Heritage Lottery Fund from nil to £1,350,000. The increase in other local authority debtors is mainly due to the increase in the debtor due from KCC for the Marlowe Theatre from £0 to £1,000,000. The sundry debtors' figure has increased largely because the final quarter's rent account for Whitefriars was settled in advance in 2008/09 and so was not outstanding.

## 24. PROVISION FOR BAD DEBTS

31 March 2009 as restated	Category	31 March 2010
£ ' 000		£ ' 000
161	Council taxpayers	165
698	Housing	644
613	Benefits	685
400	PCN's and other provisions	536
<b>1,872</b>	<b>TOTAL</b>	<b>2,030</b>

Council taxpayers have been restated to only show the Council's share of bad debts. NDR ratepayers have been restated to nil to reflect all NDR income being due to the government.

## 25. CREDITORS

31 March 2009 as restated	Category	31 March 2010
£ ' 000		£ ' 000
	Sundry creditors	
4,204	- Revenue Items	3,914
2,653	- Capital Items	2,593
1,427	Government departments	1,123
	Other local authorities	
1,983	- Revenue Items	2,002
35	- Capital Items	49
158	Council taxpayers	186
195	Housing rents	289
576	Other	620
<b>11,231</b>	<b>TOTAL</b>	<b>10,776</b>

Council taxpayers have been restated to show only the council's share of prepayments. NDR ratepayers have been restated to show nil as all the income is due to the government under an agency arrangement. The decrease in government departments is mainly due to the regional health board grant of £464,000 received at the end of 2008/09 but not applied until this year.

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

26. INVESTMENTS

Carrying amount at 31 March 2009	Investment type	Carrying amount				Fair Value at 31 March 2010
		Nominal Value	Accrued Interest	Impairment	Total 31 March 2010	
£ ' 000	<b><u>Internally Managed</u></b>	£ ' 000	£ ' 000	£ ' 000	£ ' 000	£ ' 000
4,954	Icelandic Banks - fixed deposits	4,538	0	-627	3,911	3,911
10,358	Other Banks - fixed deposits	6,000	18		6,018	6,025
17,826	Building Societies	0	0	0	0	0
<b>33,138</b>		<b>10,538</b>	<b>18</b>	<b>-627</b>	<b>9,929</b>	<b>9,936</b>
1,805	Money Market Funds	0			0	0
0	Bank deposit accounts	6,931	3		6,934	6,934
0	<b><u>Externally Managed</u></b>	0			0	0
<b>34,943</b>	<b>TOTALS</b>	<b>17,469</b>	<b>21</b>	<b>-627</b>	<b>16,863</b>	<b>16,870</b>

The impairment of £627k (excluding interest) relates to net investments of £2.5m with the Heritable Bank, a U.K. bank with an Icelandic parent bank, and £2m with the Glitnir Bank, an Icelandic bank. The level of impairment has been calculated using the methodology specified by CIPFA which shows the impairment of the original investment to be £316k. To this is added estimated interest after maturity, at the contracted rates shown below, of £733k which is fully impaired. These amounts have been further impaired by a discounted cashflow calculation to £1,360k (gross of interest). Under current Icelandic law, local authority deposits with Glitnir should have priority status above other creditors and CIPFA recommends that local authorities should adopt this approach in the accounts. However, the winding-up committee has not yet recognised this, and the issue is now the subject of legal action in Iceland. The impairment loss is estimated to be a further £1,493k if this status is found not to apply.

**INVESTMENTS IN ICELANDIC BANKS**

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing, Singer and Friedlander went into administration. The authority originally had £6m deposited across 2 of these institutions, with varying maturity dates and interest rates. Since then, the council has received repayments from the administrators of the Heritable Bank totalling £1,462k. The details of the investments are as follows:

Date Invested	Bank	Maturity Date	Amount Invested (net of receipts)	Interest Rate	Carrying Amount	Gross Impairment	Impairment excluding interest
			£'000		£'000	£'000	£'000
18/12/07	Heritable Bank Ltd	17/12/08	1,266	6.06%	966	559	300
9/01/08	Heritable Bank Ltd	08/01/09	636	5.56%	483	268	153
15/1/08	Heritable Bank Ltd	15/1/09	636	5.45%	483	266	153
14/3/08	Glitnir Bank	13/3/09	2,000	6.00%	1,979	267	21
	<b>Total</b>		<b>4,538</b>		<b>3,911</b>	<b>1,360</b>	<b>627</b>

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the authority will be determined by the administrators/receivers.

The current situation with regards to recovery of the sums deposited varies between each institution. Based on the latest information available, the authority considers that it is appropriate to consider an impairment adjustment for the deposits, and has taken the action outlined below. As the available information is not definitive as to the amounts and timings of payments to be made by the administrators/receivers, it is likely that further adjustments will be made to the accounts in future years.

26. INVESTMENTS (cont)

**Heritable Bank**

Heritable Bank is a UK registered bank under Scottish law. The company was placed in administration on 7 October 2008. The creditor progress report issued by the administrators, Ernst and Young, dated 28 January, 2010, outlined that the return to creditors was projected to be 85p in the £. The council has already received a total of £1,461,675 (representing a dividend of 34.98%) in respect of the Heritable Bank during the financial year 2009/10. The authority has therefore decided to recognise an impairment based on it recovering a further 50p in the £. It is anticipated that payments will now be made at regular intervals until a final sale of assets after the books have been run down during 2012. Therefore in calculating the impairment the authority has assumed that a dividend of 5% will be paid on the following dates:

June, September and December 2010, March, June, September and December 2011 and March, June and September 2012.

Recoveries are expressed as a percentage of the authority's claim in the administration, which includes interest accrued up to 6 October 2008.

**Glitnir Bank hf**

Glitnir Bank hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008, its domestic assets and liabilities were transferred to a new bank (new Glitnir) with the management of the affairs of Old Glitnir being placed in the hands of a resolution committee. Old Glitnir's affairs are being administered under Icelandic law. Old Glitnir's latest public presentation of its affairs was made to creditors on 5 November 2009 and can be viewed on its website.

An Icelandic law that was passed just prior to the failure of the banks in Iceland, gives repayment of deposits placed in the bank priority over other creditors should a bank become insolvent. However, the winding-up committee of the Glitnir bank is claiming that the amounts placed by local authorities with the bank were not deposits but were loans, and therefore do not qualify for this status, despite the fact that Landsbanki has accepted the priority status of local authority depositors. Both of these decisions are now subject to legal challenges in Iceland and the outcome for the council very much depends on the results of this legal action, with the council likely to recover 100% of the investment if priority status is agreed, but only around 29% if it is not. The amount recoverable may also be subject to the following uncertainties:

- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the authority's claim, which may be denominated wholly or partly in currencies other than sterling.
- Settlement of the terms of a 'bond' which will allow creditors of Old Glitnir to enjoy rights in New Glitnir.

The authority has therefore decided to recognise an impairment based on it recovering the full amount of principal and interest up to 14 November 2008 in the future as recommended by CIPFA in their LAAP bulletin 82 (update no. 2). The impairment therefore reflects the loss of interest to the authority until the funds are repaid.

No information has been provided by the resolution committee about the timing of any payments to depositors. Since the value of deposits is small compared to the total asset value of the bank, in calculating the impairment the authority has therefore made an assumption that the repayment of priority deposits will be made during June 2011.

Recoveries are expressed as a percentage of the authority's claim in the administration, which it is expected may validly include interest accrued up to 14 November 2008.

**Both banks**

The impairment loss recognised in the Income and Expenditure Account in 2008/09, £1,463,000, was calculated by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the authority until monies are recovered.

The impairment loss of £1,360,000 for 2009/10 has been calculated in a similar fashion, but as the figure is less than that for 2008/09 this has resulted in a reversal of £102,000 (adjusted for rounding difference of £1,000) of last year's impairment.

Adjustments to the assumptions will be made in future accounts as more information becomes available.



**NOTES TO THE CORE FINANCIAL STATEMENTS (continued)**

**26. INVESTMENTS (cont)**

The Authority has taken advantage of the Capital Finance Regulations to defer the impact of the impairment on the General Fund, and a sum of £102,000 has been transferred from the Financial Instruments Adjustment Account. The balance of £317,000 relates to interest which has been borne in full by the General Fund.

Discussions are ongoing with the DCLG to amend regulations to allow the authority to charge the relevant proportion of the impairment loss, including lost interest, to the Housing Revenue Account.

**27. GOVERNMENT (& OTHER) CAPITAL GRANTS - DEFERRED ACCOUNT**

This account was created as a result of the capital accounting requirements. When government or other capital grants are applied to finance the acquisition or enhancement of fixed assets, they have to first be credited to this account, and then only credited to revenue over the life of the asset.

2008/09	Movements in the year	Gov't Grants	External cap.conts.	2009/10
£ ' 000				£ ' 000
13,738	Balance at 1 April	15,788	2,199	17,987
841	Addition to balance re grants where the asset is not being depreciated (contra capital adjustment a/c)	0	0	0
	Grants received-			
	Capital grants (applied to fixed assets)			
1,884	-where the asset is being depreciated	1,311	66	1,377
2,122	-where the asset is not being depreciated	1,462	1,480	2,942
18,585		18,561	3,745	22,306
598	Less : Amount written-out to revenue -where the asset is being depreciated	523	151	674
<b>17,987</b>	<b>Balance at 31 March</b>	<b>18,038</b>	<b>3,594</b>	<b>21,632</b>

**28. DEFERRED CAPITAL RECEIPTS**

Deferred capital receipts are amounts principally derived from sales of assets which will be received in instalments over agreed periods of time. They arise principally from mortgages on sales of council houses, which form the main part of mortgages under long-term debtors.

Balance 1 April		Additional Financing	Reduced Financing	Balance 31 March
£ ' 000		£ ' 000	£ ' 000	£ ' 000
66	<b>Mortgages</b>	0	-19	47

**29. PRIVATE FINANCE INITIATIVE (PFI)**

In October 2007 the council entered into an agreement with Kent County Council and nine other Kent district councils to all participate in a Private Finance Initiative (PFI) called 'Better Homes Active Lives'.

The PFI will generate up to 352 units of social housing across Kent, including 65 apartments for people with learning difficulties, 7 apartments for people with mental health problems and 280 units of sheltered housing for frail older people.

As part of the agreement, Canterbury City Council has donated two properties on a leasehold basis: King Edward Court, Herne Bay, valued at £1,400k and Brymore Road Garages, Canterbury, valued at £425k. The council will retain ownership of the freehold of both properties and will receive a peppercorn rent for the use of the properties.

Under the agreement, the council will have nomination rights over the occupancy of the properties for the first 30 years, after which there will be the option of retaining the nomination rights or receiving an increased rent.

The King Edward Court scheme and the Brymore Road scheme (now known as Henry Court) are both built and fully occupied.

**NOTES TO THE CORE FINANCIAL STATEMENTS (continued)**

**30. ANALYSIS OF NET ASSETS EMPLOYED**

An analysis of the 'Total Net Worth', as shown in the Balance Sheet, by fund is as follows:

31 March 2009			31 March 2010		31 March
FUND			FUND		2010
General Fund as restated	Housing		General Fund	Housing	Total
£ ' 000	£ ' 000	BALANCE SHEET ITEM	£ ' 000	£ ' 000	£ ' 000
7,844	121	Revaluation reserve	14,575	14,072	28,647
119,300	255,330	Capital adjustment account	115,923	250,206	366,129
-1,642	-429	Financial instruments adjustment account	-1,184	-304	-1,488
27	0	Collection fund adjustment account	42	0	42
9,808	588	Usable capital receipts reserve	7,171	659	7,830
-46,580	0	Pensions reserve	-89,246	0	-89,246
66	0	Deferred capital receipts	47	0	47
0	188	Major repairs reserve	0	188	188
12,174	1,211	Earmarked reserves	11,856	1,245	13,101
1,632	5,790	Revenue Balances	2,509	2,326	4,835
<b>102,629</b>	<b>262,799</b>	<b>TOTAL</b>	<b>61,693</b>	<b>268,392</b>	<b>330,085</b>
<div style="border-top: 1px dashed black; width: 100%;"></div> <b>365,428</b>					

The element of the General Fund net worth at 31 March 2010 that relates to trading operations is £66,554,000 (2008/09 - £64,077,000). This includes £66,213,000 (2008/09 - £63,188,000) in relation to Commercial Property and Industrial Estates which generate rental income of £ 3,656,400 (2008/09 - £ 3,802,700 ) under operating lease arrangements. There is an additional £60,000 rental income from an operating lease of a building in Whitstable Harbour, which has not been valued separately from the harbour as a whole.

**31. OPERATING LEASES PAYABLE**

The authority acquires some equipment (e.g. for car parks) through operating leases. The amount paid under these arrangements in 2009/10 was £44,000 ( 2008/09 - £126,000). The future cash payments required under these leases are:

Details of period	Commitment in	
	2010/11	2011/12->
	£ ' 000	£ ' 000
Those operating leases in which the commitment:		
expires within that year	0	0
expires in the second to fifth years from the balance sheet date	25	51
expires over five years from the balance sheet date	0	0
<b>TOTAL</b>	<b>25</b>	<b>51</b>

**32. ASSETS HELD UNDER FINANCE LEASES**

The original total capital value of finance lease agreements at 31 March 2010 is approximately £ 193,000 of which the outstanding obligations amount to less than £ 1,000. Finance lease payments for the year amounted to £ 200 (2008/09 - £ 200).

The council has not acquired any assets through finance leases since April 1990. All but one of these leases were for a primary period of 5 years. Since the outstanding obligations are not material, these have not been reflected in the consolidated balance sheet.

**33. POST BALANCE SHEET EVENTS & AUTHORISATION FOR ISSUE OF STATEMENT OF ACCOUNTS**

The Chancellor of the Exchequer announced in his emergency budget on 22 June 2010 that the consumer price index rather than the retail price index will be the basis for future public sector pension increases. In accordance with paragraph 21 of Financial Reporting Standard 21 (Events after the balance sheet date), this change is deemed to be a non-adjusting post balance sheet event. The effect of this change is estimated to reduce the value of FRS17 liabilities and will be determined in future actuarial valuations.

The statement of accounts was authorised for issue on 30 June 2010 by the Director of Finance.

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

34. SUMMARY INTRODUCTION TO THE DETAIL OF MOVEMENTS ON RESERVES

The council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans.

Reserve	Balance 1 April 2009 £ ' 000 As restated	Net Movement in Year £ ' 000	Balance 31 March 2010 £ ' 000	Purpose of Reserve	Further Detail of Movements
Revaluation Reserve	7,965	20,682	28,647	Store of gains on revaluation of fixed assets, not yet realised through sales.	(35a) below.
Capital Adjustment Account	374,630	-8,501	366,129	Store of capital resources set aside to meet past expenditure	(35c) below.
Financial Instruments Adjustment Account	-2,071	583	-1,488	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments	(35b) below.
Collection Fund Adjustment Account	27	15	42	Resources available to meet future precept payments re City Council share only.	Collection Fund Statements, page 49.
Usable Capital Receipts	10,396	-2,566	7,830	Proceeds of fixed asset sales available to meet future capital investment.	(35d) below.
Pensions Reserve	-46,580	-42,666	-89,246	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 13 to the Core Financial Statements, p.22.
Deferred Capital Receipts	66	-19	47	Represents principal outstanding from mortgages.	Note 28 to the Core Financial Statements, p.31.
Major Repairs Reserve	188	0	188	Resources available to meet capital investment in council housing.	Notes to HRA Statements, page 46.
Earmarked Reserves	13,385	-284	13,101	Reserves earmarked for specific purposes.	(35e) below.
Revenue Balances - General Fund	1,632	877	2,509	Resources available to meet future running costs for non-housing services.	Statement of Movement on the General Fund Balance, page 14.
Housing Revenue Account	5,790	-3,464	2,326	Resources available to meet future running costs for council houses.	HRA Statements, page 44.
<b>Total</b>	<b>365,428</b>	<b>-35,343</b>	<b>330,085</b>		

**NOTES TO THE CORE FINANCIAL STATEMENTS (continued)**

**MOVEMENTS ON RESERVES (continued)**

**35a. REVALUATION RESERVE**

This is a new reserve, which was created with a nil balance at 1 April 2007, which shows the net gain (if any) from revaluations made after 1 April 2007 i.e. increases in value as a result of inflation or other factors. It does not represent resources available to support capital financing.

2008/09 Total	REVALUATION RESERVE	General Fund	Housing	2009/10 Total
£' 000		£' 000	£' 000	£' 000
-323	Change in revaluations of fixed assets in year	6,362	11,324	17,686
248	Depreciation written out on revaluations of fixed assets	402	2,628	3,030
-75	<b>Total decrease (-) / increase in unrealised value of fixed assets in the year. (see STRGL page 15)</b>	6,764	13,952	<b>20,716</b>
-662	<b>Transfers to Capital Adjustment Account (note 35c) -</b> Write-out the revaluation gains previously recognised for assets disposed of in current year.	0	0	0
-47	For additional depreciation following revaluations.	-33	-1	<b>-34</b>
-784	<b>Total movement in reserve in the year.</b>	6,731	13,951	20,682
8,749	Balance at 1 April	7,844	121	7,965
<b>7,965</b>	<b>Balance at 31 March</b>	<b>14,575</b>	<b>14,072</b>	<b>28,647</b>

**35b. FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT**

This is a reserve, created at 1 April 2007, which provides a balancing mechanism between the different rates at which gains and losses (such as premiums on the early repayment of debt and loans made at less than market value) are recognised under the SORP and are required by statute to be met from the General Fund. It also has to carry the value of any impairments to investments. This reserve does not represent resources available to the council.

31 March 2009	Category	New Advances	Redemp- tions	31 March 2010
£ ' 000		£ ' 000	£ ' 000	£ ' 000
-615	<b>Premiums paid on premature redemption of PWLB loans.</b>			
-519	- General fund share	0	37	-578
-1,134	- HRA share	0	141	-378
	<b>Total</b>	0	178	-956
260	<b>Discounts received on premature redemption of loans.</b>			
89	- General fund share	0	-27	233
-785	- HRA share	0	-15	74
-240	<b>Net Total of Premiums / Discounts</b>	<b>0</b>	<b>136</b>	<b>-649</b>
-1,046	<b>Soft Loans (difference between actual value &amp; fair value)</b>	<b>-14</b>	<b>42</b>	<b>-212</b>
-2,071	<b>Impairment of investments (see note 26)</b>	<b>0</b>	<b>419</b>	<b>-627</b>
	<b>TOTAL</b>	<b>-14</b>	<b>597</b>	<b>-1,488</b>

There have been various debt restructures between 1998/99 and 2006/07 which have resulted in premiums or discounts on the early repayment of debt, which are being spread over the life of the replacement or original loans (whichever was appropriate). In the 2007/08 statement these were removed from the face of the balance sheet and instead included in the above account. In 2008/09 following sharp falls in investment rates, it was more beneficial to offset potential losses in investment income by redeeming long-term PWLB debt rather than earning investment interest at very low rates. The council therefore redeemed 6 loans between 05/11/2008 and 28/01/2009 totalling £8.5m, at a total discount of £337,000. The discount has to be credited to revenue over 10 years. The estimated cash saving is £279,000 in 2009/10, £238,000 in 2010/11, £73,000 in 2011/12 and then £32,000 ongoing.

The main component of soft loans relates to an interest-free loan of £600,000 advanced to Active Life. Full details regarding the impairment of investments are set out in note 26.

**NOTES TO THE CORE FINANCIAL STATEMENTS (continued)**

**MOVEMENTS ON RESERVES (continued)**

**35c. CAPITAL ADJUSTMENT ACCOUNT**

This reserve reflects the timing differences between the historical cost of fixed assets consumed, and the capital financing set aside to pay for them. It was created at 1 April 2007 from the total balance of the previous Fixed Asset Restatement Account and the previous Capital Financing Accounts.

The account accumulates (on the debit side) the write-down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure.

2008/09 Total	CAPITAL ADJUSTMENT ACCOUNT	General Fund	Housing	2009/10 Total
£' 000	<b>Debits relating to the historical cost of acquiring, creating or enhancing fixed assets, over the life of those assets.</b>	£' 000	£' 000	£' 000
-71,929	Impairment of fixed assets -			
-7,610	Revaluations downwards	-4,920	-2,187	-7,107
	Deficit on revaluation and restatement of current year transactions	-164	-8,046	-8,210
-79,539		-5,084	-10,233	-15,317
-5,486	Depreciation and amortisation of fixed assets in year	-2,459	-2,727	-5,186
47	Additional depreciation transferred from Revaluation Reserve to Capital Adjustment a/c after revaluations	33	1	34
	<b>Debits relating to disposals.</b>			
-2,840	Amounts written off fixed assets balances for disposals in current year.	-527	-615	-1,142
472	Less depreciation written out on disposals in current year	502	0	502
662	Less: Transfer from Revaluation Reserve to Capital Adjustment account following disposal.	0	0	0
	<b>Debits relating to the historical cost of revenue funded from capital.</b>			
-897	Reversal out of revenue expenditure less grants funded from capital under statute	-712	0	-712
-49	Repayments of soft loans and housing act advances.	-84	0	-84
-87,630		-8,331	-13,574	-21,905
	<b>Credits relating to resources set aside to finance capital expenditure.</b>			
2,518	- capital expenditure financed from capital receipts	3,056	0	3,056
3,709	- capital expenditure financed from major repairs reserve	0	3,829	3,829
3,805	- capital expenditure financed from revenue	537	4,439	4,976
598	- government grants deferred written-out to revenue	671	3	674
816	- minimum revenue provision	869	0	869
11,446	<b>Total credits from resources set aside to finance capital.</b>	5,133	8,271	13,404
-76,184	<b>Movement in the year.</b>	-3,198	-5,303	-8,501
451,655	<b>Balance at 1 April</b>	119,300	255,330	374,630
-841	Reduction to opening balance contra government capital grants - deferred account (note 27) re grants received in previous years for non-depreciating assets.	0	0	0
0	Transfer between General Fund and HRA	-179	179	0
374,630	<b>Balance at 31 March</b>	115,923	250,206	366,129

MOVEMENTS ON RESERVES (continued)

35d. USABLE CAPITAL RECEIPTS RESERVE

These are capital receipts which may be used to finance future capital expenditure.

2008/09 Total	Movements in realised capital resources	General Fund	Housing	2009/10 Total
£' 000		£' 000	£' 000	£' 000
2,805	Capital receipts received in the year (gross)	85	1,046	1,131
-527	Less: Contribution to housing pooled capital receipts	0	-641	-641
-2,518	Less: Receipts used to finance new capital investment	-2,722	-334	-3,056
-240	<b>Total increase / (decrease) in realised capital resources in the year</b>	-2,637	71	<b>-2,566</b>
10,636	Balance at 1 April	9,808	588	10,396
<b>10,396</b>	<b>Balance at 31 March</b>	<b>7,171</b>	<b>659</b>	<b>7,830</b>

Note : Only 25% of receipts from council house sales and 50% of other housing capital receipts are usable. The remainder has to be paid into a government pool. General fund capital receipts are 100% usable.

35e. EARMARKED RESERVES

Balance at 1 April	Name of Reserve	Note	<-----Additions----->			<-----Reductions----->			Balance at 31 March
			Interest Receipts	Transfer from revenue	Receipts in year	Transfers between reserves	Transfer to revenue	Payments in year	
£ ' 000			£ ' 000	£ ' 000	£ ' 000	£ ' 000	£ ' 000	£ ' 000	£ ' 000
928	LABGI reserve	(a)		22		550			400
163	Early retirement	(b)		64		48			179
329	Computer/equipment	(c)		47				39	337
0	Concessionary fares	(d)		700					700
221	CCTV Reserve	(e)		35		-12		180	88
388	Insurance reserve	(f)	8				65		331
123	Office equipment	(g)	1	41				92	73
303	Liability insurance	(h)	1					20	284
87	NDR reserve	(i)					60		27
108	Regeneration	(j)		64				30	142
250	Restructure resv	(k)		100		-344	62		632
228	Open spaces maintenance	(l)					17		211
243	Benefits grant income	(m)					82		161
221	Benefits overpayments	(n)		176			231		166
2,641	VAT Recovered reserve	(o)			385	372	418		2,236
251	Performance reward grt re	(p)		16		12			255
954	Kingsmead interest	(q)							954
346	CPO Lodgements resv	(r)					115		231
487	External interest	(s)	11				142		356
0	Premature Debt Rept	(t)		79				489	-410
234	Whit.Harbour gen.resv	(u)		125			8		351
544	Subsidence reserve	(v)		50				20	574
169	Planning delivery grant	(w)		383			85	32	435
269	Local plan inquiry	(x)	4	27					300
1,773	Section 106 receipts	(y)	18		390		37	173	1,971
245	Car park reserve	(z)					55	92	98
92	Out of date cheque reserve	(aa)					32		60
1,788	Other reserves		2	255	258	-28	217	155	1,959
<b>13,385</b>	<b>TOTAL RESERVES</b>		<b>45</b>	<b>2,184</b>	<b>1,033</b>	<b>0</b>	<b>2,224</b>	<b>1,322</b>	<b>13,101</b>

Notes:

- (a) The Local Authority Business Growth Incentive (LABGI) reserve holds the LABGI grant normally received in February each year to be used in the following year's budget plus the balance of grant received in 2008/09. This was assessed on the amount of growth in the rateable value of businesses in the area above a standard increase. In order to cushion the budget impact, because the grant ended in 2008/09, the balance of the reserve is being credited to revenue over the next three years, at a reduced level each year.
- (b) The Early retirement reserve was set up in 1999/2000 to finance the additional payments required by the Kent superannuation fund as a result of early retirement following the council's restructure.

**35e. EARMARKED RESERVES (continued)**

- (c) The Computer/equipment reserve was created in 1995/96 to finance computers and equipment which need replacing.
- (d) The concessionary fares reserve was created in 2009/10 to replace the 2008/09 creditor provision for the bus company appeal re 2008/09 plus further likely appeals in 2009/10.
- (e) This reserve is used to finance CCTV equipment.
- (f) The Insurance reserve is used to meet claims on the council for which external insurances have not been effected. This reserve covers three broad areas of insurable risks:
  - (i) Professional indemnity; (covers losses resulting from professional negligence)
  - (ii) All risks cover for equipment under £5,000 in value
  - (iii) Sold council houses - latent defects (i.e. defects discovered at a later date which could not reasonably have been identified at the time of sale).

The current balance on the reserve held for each risk is roughly in the proportions 70%, 10%, 20%, so e.g. approximately £230,000 is held to cover professional indemnity (which could involve major sums).
- (g) This reserve funds the rolling programme of office equipment renewals.
- (h) The Liability insurance reserve covers public liability claims under £5,000. (Claims over £5,000 being covered by external insurance). Claims tend to take many years before settlement is agreed, therefore the balance has to cover prior year outstanding claims and future liabilities.
- (i) The NDR reserve was created to cover back-dated assessments of NDR on council properties on which NDR is payable, but have not yet been assessed by the valuation office. Now that the liability on some properties has passed the statutory period, most of this reserve is being transferred back to revenue.
- (j) This reserve was created in 2005/06 to be used for regeneration projects.
- (k) This reserve was created in 2008/09 from part of the VAT refund to cover restructure costs.
- (l) The Open spaces maintenance reserve holds the balance from commuted payments from developers (under section 106 agreements) based on 20 years maintenance costs of spaces taken over by the council. The balance for each development is transferred to revenue over 20 years.
- (m) The Benefits grant income reserve holds additional housing benefit subsidy income arising from the final claim being greater than assumed in the accounts. The balance is being transferred back to revenue.
- (n) The Benefits overpayment reserve was created in 2004/05 to hold the excess of overpayments which have been identified by the benefits computer system compared with the balance in the accounts. The balance is being credited back to revenue over a number of years, starting from 2006/07.
- (o) This reserve was created in 2008/09 from the VAT refund from HM Revenue and Customs to support the revenue budget over the next few years and to cover any impairment on investments.
- (p) This reserve was created in 2008/09 to hold the performance reward grant that was due re 2008/09 although neither the grant or spend will take place until 2009/10 or 2010/11.
- (q) The Kingsmead interest reserve holds the interest earned on the Kingsmead and other major capital receipts in order to fund the revenue budget from 2009/10, as agreed at full council 21 Feb 2008. With falls in interest rates in 2009, further transfers to the reserve were suspended, and the balance is now being transferred back to revenue at £300k pa from 2010/11.
- (r) The CPO lodgements reserve was created in 2006/07 from amounts recovered from the land registry 12 years after the original deposit was made. It is being credited back to revenue over four years from 2008/09.
- (s) The External interest reserve, created in 1997/98 and increased by investment interest earned above budget from good fund management performance, is now being credited back to revenue over a number of years.
- (t) The premature debt repayment identifies the premature repayment of the financing of the LAMP project, which is being paid back from land charges receipts over four years. The balance is offset against other reserves.
- (u) The Whitstable Harbour general reserve holds any surpluses from the ring-fenced account to spend on the Harbour in future years.
- (v) The subsidence reserve was created in 2005/06 to cover liabilities arising from subsidence of housing stock properties now that they are not covered within the council's insurance policy.
- (w) This reserve holds the balance of planning delivery grant, not used in the year of receipt, for future projects and ongoing commitments.
- (x) The local plan enquiry reserve evens out the impact of costs which arise on a periodic basis for the local plan enquiry.
- (y) This reserve holds the balance of section 106 planning receipts which have been received from developers until they are applied to the purpose for which they were received.
- (z) This reserve was created in the 2006/07 budget strategy to finance work on the council's car parks.
- (aa) This reserve was created in 2006/07 by transferring from a creditor provision. The balance will be transferred back to revenue if cheques are still unclaimed after a few years.

**NOTES TO THE CORE FINANCIAL STATEMENTS (continued)**

**FINANCIAL INSTRUMENTS**

**36. FINANCIAL INSTRUMENTS BALANCE**

The Balance Sheet has potentially four balances relating to financial instruments:

i) Long-term investments. ii) Current assets - investments. iii) Current liabilities - borrowing repayable on demand or in less than 12 months. iv) Borrowing repayable within a period in excess of 12 months.

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

31 March 2009			31 March 2010	
Long-Term	Current		Long-Term	Current
£' 000	£' 000		£' 000	£' 000
20,668	7,506	<b>Borrowings</b>		
0	0	Financial liabilities at amortised cost	25,688	7
		Financial liabilities at fair value through profit and loss	0	0
<b>20,668</b>	<b>7,506</b>	<b>Total Borrowings</b>	<b>25,688</b>	<b>7</b>
<b>£' 000</b>	<b>£' 000</b>	<b>Investments</b>	<b>£' 000</b>	<b>£' 000</b>
0	34,943	Loans and receivables	0	16,863
0	0	Available-for-sale financial assets	0	0
<b>0</b>	<b>34,943</b>	<b>Total Investments</b>	<b>0</b>	<b>16,863</b>

**37. FINANCIAL INSTRUMENTS GAINS / LOSSES**

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

	Financial Liabilities (Borrowing)	Financial Assets (Investments)		Total
	Liabilities measured at amortised cost	Loans and receivables	Available-for- sale assets	
	£' 000	£' 000	£' 000	£' 000
<b>Interest payable and similar charges</b>				
Interest payable	-1,071	0	0	
Discounts on the early settlement of borrowing	0	0	0	
Impairment of financial assets (investments)	0	102	0	
Impairment of financial assets (investment interest)	0	0	0	
Losses on derecognition	0	0	0	
<b>Interest payable and similar charges</b>	<b>-1,071</b>	<b>102</b>	<b>0</b>	<b>-969</b>
<b>Interest and investment income</b>				
Interest income (received)	0	646	0	
Interest income (impaired)	0	317	0	
Gains on derecognition	0	0	0	
<b>Interest and investment income</b>	<b>0</b>	<b>963</b>	<b>0</b>	<b>963</b>
<b>Net gain / loss (-) for the year</b>	<b>-1,071</b>	<b>1,065</b>	<b>0</b>	<b>-6</b>

**38. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES CARRIED AT AMORTISED COST**

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the Net Present Value of the cash flows that will take place over the remaining term of the instruments, which provides an estimate of the value of payments in the future in today's terms. This is the widely accepted valuation technique commonly used by the private sector. The following assumptions have been used:

i) For PWLB Loans, the new borrowing rate has been used as the discount factor (as opposed to the premature repayment rate). This is because the premature repayment rate includes a margin which represents the lender's profit as a result of rescheduling the loan, which is not included in the fair value calculation. Relevant interest rates at 31 March 2010 were between 2.45% and 4.71%, depending on the maturity date of the loan.



**NOTES TO THE CORE FINANCIAL STATEMENTS (continued)**

**38. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES CARRIED AT AMORTISED COST (continued)**

ii) No early repayment or impairment is recognised.

iii) For investments, the discount rate used in the Net Present Value calculation should be equal to the current rate in relation to the same instrument from a comparable lender. This will be the rate applicable in the market on the date of the valuation for an instrument with the same outstanding period to maturity.

The fair values (calculated by Sector, our treasury advisors) are as follows:

31 March 2009			31 March 2010	
Carrying amount	Fair value		Carrying amount	Fair value
£' 000	£' 000		£' 000	£' 000
		<b>Long-Term Borrowing</b>		
20,663	21,789	Financial liabilities - PWLB Loans	25,684	26,110
5	5	Financial liabilities - Other bonds and mortgages	4	4
		<b>Short-Term Borrowing</b>		
7,506	7,526	Financial liabilities - Temporary Loans	7	7

The fair value is higher than the carrying amount because although the council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the rates available for similar loans at the Balance Sheet date, there are still three old loans totalling £2.5m with rates of 7.625%, 10.25% and 10.5% which account for a fair value of £1,769k higher than the carrying amount. Other than these three, the commitment to pay interest below current market rates reduces the amount that the authority would have to pay if the lender requested or agreed to early repayments of the loans. (It should be noted that the council's average interest payable rate was only 4.49% in 2009/10 compared to 9.22% in 2002/03).

£' 000	£' 000	Investments	£' 000	£' 000
33,138	33,443	Loans and receivables - Banks and Building Societies	16,863	16,870
1,805	1,805	Loans and receivables - Call accounts	0	0
0	0	Available-for-sale financial assets - Externally Managed	0	0
34,943	35,248		16,863	16,870

The fair value is slightly higher than the carrying amount because the authority's portfolio of investments includes a number of fixed rate investments where the interest rate receivable is slightly higher than the rates available for similar investments at the Balance Sheet date. This guarantee to receive interest above current market rates increases the amount that the council would receive if it agreed to early repayments of the investments. Both the carrying amount and fair value include the accrued interest due.

Financial assets and liabilities additionally include cash of £255k and some debtors and creditors. The fair value of these is equivalent to the nominal value, details of which are shown in note 23 (reduced by the bad debt provision in note 24) for debtors, and note 25 for creditors.

**39. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

The council's activities expose it to a variety of financial risks:

- i) Credit risk - the possibility that other parties might fail to pay amounts to the council
- ii) Liquidity risk - the possibility that the council might not have funds available to meet its commitments to make payments
- iii) Market risk - the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements.

The council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management in relation to treasury management is carried out by the Treasury and Corporate Finance Manager in consultation with the Head of Finance, under policies approved by the council in the annual treasury management strategy.

**NOTES TO THE CORE FINANCIAL STATEMENTS (continued)**

**39. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)**

**Credit risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure to the authority's customers. Deposits are only made with banks and financial institutions if they are rated with a minimum score of F1 or with building societies with more than £1 billion of assets and on the basis of other criteria and information about these institutions. The lending limits to any one counter party are based on the assessed risks and vary between £3million and £10million (as set out in the Executive report - 4 February 2010).

In 2008/09 for the first time, the Council experienced defaults by two of the financial institutions with whom investments had been made. These were the Heritable Bank, a UK bank owned by an Icelandic parent, and the Glitnir Bank, an Icelandic bank. The Council had £4m invested with the Heritable, of which 35% has now been returned and a further 50% is expected to be returned, and £2m invested with Glitnir, all of which is expected to be returned since local authorities are considered to have priority status, although this is disputed by the Glitnir winding-up committee. This status will now be determined by the courts in Iceland; the impairment with regard to the investment with Glitnir will be greater by around £1,493k if local authority deposits are not deemed to have priority.

**Liquidity risk**

As the council has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk could have been that it would be bound to replace a significant proportion of its borrowings at a time of unfavourable interest rates. However most loans have a maturity of more than 10 years and the strategy is now to spread the maturity profile of the borrowings and to make early repayments where it is beneficial to do so.

The maturity analysis of financial liabilities is as follows:

<b>31 March 2009</b>	<b>Source of loan</b>	<b>Range of interest rates payable (%)</b>	<b>31 March 2010</b>
<b>£ ' 000</b>			<b>£ ' 000</b>
20,663	Public Works Loan Board	2.52 - 10.50	25,684 (incl.interest)
5	Other bonds & mortgages	5.625 - 5.750	4
<b>20,668</b>	<b>TOTAL : LONG-TERM BORROWING</b>		<b>25,688</b>
<b>£ ' 000</b>	<b>An analysis of loans by maturity is:</b>		<b>£ ' 000</b>
0	Maturing in 1-2 years		0
0	Maturing in 2-5 years		5,000
0	Maturing in 5-10 years		0
20,668	Maturing in over 10 years (20,504 + accrued interest 184)		20,688
<b>20,668</b>	<b>TOTAL : LONG-TERM BORROWING</b>		<b>25,688</b>

**Market risk**

**Interest rate risk**

The council is potentially most affected by interest rate risk with regard to any borrowings or investments at variable interest rates, however the council does not currently have any such financial instruments.

Most of the council's borrowings are fixed at periods in excess of 10 years and therefore the market rate risk re borrowings is considered to be small. The council's investments are held at fixed rates and are due to mature within 1 year. There is some interest rate risk with regard to the reinvestment of these deposits when they mature, if interest rates should fall even further.

The council obtained £632,000 interest on its investments in 2009/10 (£2,070,000 in 2008/09) - an average interest rate of 2.20% (4.94% in 2008/09). If the average rate had been 1% less (i.e. 1.20%) then the council would have received £287,000 less income.

**NOTES TO THE CORE FINANCIAL STATEMENTS (continued)**

**NOTES TO CASH FLOW STATEMENT**

**40. RECONCILIATION OF REVENUE SURPLUS TO REVENUE ACTIVITIES NET CASHFLOW**

2008/09 As restated		2009/10	
£' 000	<b>Surplus (-) / Deficit for the year</b>	£' 000	£' 000
79,458	General Fund Income and Expenditure Account		13,845
-62	Collection Fund Revenue Account		0
79,396			13,845
	<b>Non-Cash Transactions</b>		
-69	Less : Amortisation of intangible fixed assets.	-56	
-2,784	Less : Depreciation of fixed assets (general fund)	-2,403	
-21,521	Less : Impairment of fixed assets (general fund)	-5,084	
-60,651	Less : Depreciation and Impairment of HRA assets	-12,960	
-1,046	Less : Impairment of financial assets (investments)	419	
598	Add : Government grants deferred and other capital contributions written out to revenue	674	
-49	Less : Repayments of Soft Loans & Housing Act Advances from capital resources	0	
400	Net gain / loss(-) on sale of fixed assets	388	
352	Difference between amounts debited/credited to the I&E account and amounts payable/receivable to be recognised under statutory provisions re soft loans and premiums on the early repayment of debt.	164	
-6,030	Net charges made for retirement benefits in accordance with FRS17.	-5,105	
4,480	Employer's contributions payable to the Kent Pension Fund & retirement benefits payable direct to pensioners.	4,653	
-86,320			-19,310
	<b>Items classified in another part of cash flow statement</b>		
-1,296	Add: Interest paid	-1,051	
2,100	Less: Interest received	2,126	
-6,345	Net increase / decrease in other liquid resources	-9,653	
-5,541			-8,578
-12,465			-14,043
	<b>Items on an accruals basis (assets)</b>		
-33	Add/less : Increase/decrease in stocks	-35	
-979	Add/less : Increase/decrease in debtors (net of bad debt provision)	7,683	
-136	Add/less : Increase/decrease in payments in advance	187	
330	Add/less : Increase/decrease in accrual on investments	-1,163	
-519	Add/less : Increase/decrease def'd premiums less discounts	-136	
	<b>Items on an accruals basis (liabilities)</b>		
-2,266	Add/less : Decrease/increase in revenue creditors	407	
1,268	Add/less : Decrease/increase in deposits	-62	
95	Add/less : Decrease/increase in accrual on borrowing	-20	
-236	Add/less : Accrual of capital grants & capital income	-2,478	
-2,476			4,383
<b>-14,941</b>	<b>Revenue Activities Net Cash Flow</b>		<b>-9,660</b>

**NOTES TO THE CORE FINANCIAL STATEMENTS (continued)**

**NOTES TO CASH FLOW STATEMENT (continued)**

**41. RECONCILIATION OF CASH FLOWS TO NET DEBT & SHORT-TERM INVESTMENT LEVELS**

2008/09	Category (excluding accrued interest)	Balance 1.4.09	Balance 31.3.10	Borrowing category transfers	Movement in the year
£' 000		£' 000	£' 000	£' 000	£' 000
-1,553	Short-term investments	34,805	17,469	0	-17,336
6,255	Long-term borrowing	-20,505	-25,505	0	-5,000
-7,499	Short-term borrowing	-7,506	-7	0	7,499

For details of short-term investments see note 26, and for long-term borrowing see note 39.

**42. INCREASE / DECREASE IN CASH**

Cash is defined as cash in hand and deposits repayable on demand, less overdrafts.

2008/09		Balance 1.4.09	Balance 31.3.10	Movement in the year
£' 000		£' 000	£' 000	£' 000
1,935	Bank overdraft	0	-1,250	-1,250
700	Cash in hand	1,088	255	-833
<b>2,635</b>				<b>-2,083</b>

**43. ANALYSIS OF OTHER GOVERNMENT GRANTS (REVENUE ACTIVITIES)**

2008/09		2009/10
£' 000		£' 000
1,088	Housing / council tax benefit administration	1,155
674	Public safety, homeless, recycling, improvement & other grants	1,043
613	Sure Start grant	576
546	Concessionary fares grant	599
222	DEFRA grants - Coast protection	1,569
299	Local authority business growth incentive grant (LABGI)	64
363	Specified grant (re disabled facilities grants) & regional housing board	758
459	Planning delivery grant (583) NDR collection costs (207)	790
<b>4,264</b>		<b>6,554</b>

The concessionary fares grant is a new grant from 2008/09 to meet some of the increased cost of the new national scheme. The DEFRA grant relates to capital spend on coast protection strategic monitoring and other studies for both 2008/09 and 2009/10, which are classified as revenue expenditure funded from capital under statute (see note 16) and so the grant shows as revenue income here.

**44. ANALYSIS OF CAPITAL GRANTS**

2008/09		2009/10
£' 000		£' 000
1,950	Seeda grant	0
1,037	Lottery grant	1,571
104	DEFRA grants - Coast protection & recycling	0
677	Regional housing board and other grants	270
<b>3,768</b>		<b>1,841</b>

## HOUSING REVENUE ACCOUNT INCOME & EXPENDITURE ACCOUNT

2008/09		2009/10
<b>£' 000</b>	<b>INCOME</b>	<b>£' 000</b>
18,854	Dwelling rents (gross) (Note 8)	19,272
489	Non-dwelling rents (gross)	452
126	Leaseholder's charges for services and facilities	122
1,275	Other charges for services and facilities	1,121
<b>20,744</b>	<b>TOTAL INCOME</b>	<b>20,967</b>
	<b>EXPENDITURE</b>	
4,343	Repairs and maintenance	4,531
3,128	Supervision and management	3,153
1,744	-General management	1,900
214	-Special services	271
214	Rents, council tax and insurance	271
5,422	Negative housing revenue account subsidy payable (Note 9)	5,358
2,633	Depreciation charges (Note 6)	2,727
58,018	Impairment of fixed assets (Note 7)	10,233
56	Debt Management Expenses	48
152	Increase / decrease (-) in provision for bad or doubtful debts	34
<b>75,710</b>	<b>TOTAL EXPENDITURE</b>	<b>28,255</b>
<b>54,966</b>	<b>NET COST OF HRA SERVICES per Income and Expenditure Account</b>	<b>7,288</b>
119	HRA services share of Corporate and Democratic Core	121
<b>55,085</b>	<b>NET COST OF HRA SERVICES</b>	<b>7,409</b>
0	Gain on sale of HRA fixed assets	-411
248	Interest payable	254
0	Premium on repurchase of borrowing (see p.44)	0
-6	Interest and investment income - Mortgages	-3
-456	Notional cash balances	-132
444	Pensions interest cost and expected return on pension assets (N11)	605
<b>55,315</b>	<b>SURPLUS(-) / DEFICIT FOR THE YEAR ON HRA SERVICES</b>	<b>7,722</b>

The HRA Income and Expenditure Account shows the council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last year. However the council is required to account for HRA balance on a different basis, the main differences being:

1) Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed. 2) Retirement benefits are charged as amounts become payable to pensions funds and pensioners, rather than as future benefits are earned. 3) Impairment losses of £10,233k due to some properties being taken out of debit prior to rebuild and the assessed increase in council house values following capital works was less than actual capital expenditure. These are all reversed out in the following statement.

## STATEMENT OF MOVEMENT ON THE HRA BALANCE

The HRA Balance compares the council's spending against rents collected in the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure. This reconciliation statement summarises the differences between the outturn on the HRA Income and Expenditure Account and the HRA Balance.

2008/09 Net Expenditure		2009/10 Net Expenditure
£' 000 55,315	Surplus (-) / Deficit for the year on the HRA Income and Expenditure Account	£' 000 7,722
-53,418	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year. (see table below)	-4,258
1,897	<b>Increase (-) / Decrease in HRA Balance for the year</b>	<b>3,464</b>
-7,687	<b>HOUSING REVENUE ACCOUNT BALANCE B/F AT 1 APRIL</b>	<b>-5,790</b>
-5,790	<b>HOUSING REVENUE ACCOUNT BALANCE C/F AT 31 MARCH</b>	<b>-2,326</b>

### NOTE TO THE STATEMENT OF MOVEMENT ON THE HRA BALANCE

2008/09 Net Expenditure		2009/10 Net Expenditure
	<b>Items included in the HRA Income and Expenditure Account, but <u>excluded</u> from the movement on the HRA Balance for the year.</b>	
£' 000 -58,018	Reversal of impairment losses (Note 7)	£' 000 -10,233
3	Government grants deferred w/out to revenue	3
0	Net gain on sale of HRA fixed assets	411
154	Difference between amounts charged to income and expenditure for premiums and discounts and the charge for the year determined by statute.	125
-550	Net charges made for retirement benefits in accordance with FRS17 (Note 11)	-584
<b>-58,411</b>		<b>-10,278</b>
	<b>Items <u>not</u> included in the HRA Income and Expenditure Account, but <u>included</u> in the movement on the HRA Balance for the year.</b>	
1,076	Transfer to/from (-) major repairs reserve (Note 3)	1,102
-31	Contribution to HRA subsidence and other reserves	30
486	Employer's contributions payable to Kent Pension Fund and retirement benefits payable direct to pensioners.	449
3,462	Capital expenditure funded by the HRA (Note 4)	4,439
<b>4,993</b>		<b>6,020</b>
<b>53,418</b>	<b>Net additional amount required by statute to be debited or (credited) to the HRA balance for the year.</b>	<b>-4,258</b>

## NOTES TO THE HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) summarises the transactions relating to the provision, maintenance and sales of council houses and flats. The account has to be self-financing and there is a legal prohibition on cross subsidy to or from local taxpayers.

### 1. HOUSING STOCK

i) At 31 March 2010, the council was responsible for managing 5,220 units of accommodation:

Type of Property	Number of Bedrooms				Total
	One	Two	Three	Four +	
Flats-Low Rise	1,099	314	5	1	1,419
Flats-Medium Rise	292	349	65	4	710
Flats-High Rise	64	69	0	0	133
Houses and bungalows	354	958	1,523	88	2,923
Hostel places	34	0	1	0	35
<b>Totals</b>	<b>1,843</b>	<b>1,690</b>	<b>1,594</b>	<b>93</b>	<b>5,220</b>

Plus 8 Basic Homes (shared ownership dwellings)

ii) The movement in Housing stock can be summarised as follows:

	Stock movements					Stock at 31/03/10
	Stock at 01/04/09	Right-to buy Sales	Sale to RSL	Additions	Redns.	
Flats	2,317	-1	0	0	-54	2,262
Houses and bungalows	2,928	-7	0	2	0	2,923
Hostels	41	0	-6	0	0	35
<b>Totals</b>	<b>5,286</b>	<b>-8</b>	<b>-6</b>	<b>2</b>	<b>-54</b>	<b>5,220</b>

The -54 reductions relate to Franklyn House & Ellen Court, which are being rebuilt. The sale to RSL is re 113 Central parade, a building with hostel units.

iii) The gross balance sheet value of housing assets at 31 March was as follows:

2009	Gross Balance Sheet Value	2010
<b>£' 000</b>		<b>£' 000</b>
259,690	Operational assets	
1,880	- dwellings	268,853
410	- garages	1,961
	- community centre	398
	Non-operational assets	
611	- land	448
1,127	- shops	1,127
<b>263,718</b>	<b>TOTAL</b>	<b>272,787</b>

### 2. VACANT POSSESSION VALUE

The vacant possession value of dwellings within the HRA as at 1 April was £597,339,000. For the balance sheet, the figure has been reduced to 45% i.e. £268,853,000 (after adjusting for the shared equity property) to show existing use value as social housing, reflecting the economic cost of providing social housing.

### 3. MAJOR REPAIRS RESERVE

With effect from 1 April 2002, the Government required that the Housing accounts are produced on a Resource Accounting basis. This requires that a charge is made for depreciation which is transferred to a separate Major Repairs Reserve, to finance HRA capital projects.

## NOTES TO THE HOUSING REVENUE ACCOUNT (con)

### 3. MAJOR REPAIRS RESERVE (continued)

The housing subsidy for 2009/10 includes a grant in the form of a Major Repairs Allowance (MRA) to resource the Major Repairs Reserve. The MRA is ring fenced for capital expenditure of a housing nature. If any allowance is unspent in one year, it can be carried forward to finance capital expenditure in future years within the Major Repairs Reserve. The balance available for allocation in future years at 31 March 2010 is £188,000.

2008/09	Major Repairs Reserve	2009/10
£' 000		£' 000
188	Balance at 1 April	188
2,633	Transfer from capital adjustment account (HRA depreciation)	2,727
	Transfer to(-)/from HRA	
	re depreciation on non-dwellings	-38
1,076	re excess(-)/shortfall of dwellings depreciation over MRA	1,140
-3,709	Less: expenditure on dwellings financed from this reserve	-3,829
<b>188</b>	Balance at 31 March	<b>188</b>

### 4. SUMMARY OF CAPITAL FINANCING

Capital expenditure of £8,592,000 was spent on housing assets (all on dwellings) within the HRA during 2009/10. This was financed as follows:

2008/09	Capital financing of HRA expenditure	2009/10
£' 000		£' 000
3,709	Major Repairs Reserve	3,829
3,462	Revenue	4,439
323	Borrowing	324
0	Capital receipts	0
0	Capital Grant	0
<b>7,494</b>	<b>Total</b>	<b>8,592</b>

### 5. SUMMARY OF CAPITAL RECEIPTS

Housing capital receipts during 2009/10 were as follows:

2008/09	Housing capital receipts	2009/10
£' 000		£' 000
674	Dwelling sales (net of administration deduction)	1,012
0	Other sales	15
46	Mortgage repayments and discounts repaid	19
<b>720</b>	<b>Total</b>	<b>1,046</b>

### 6. DEPRECIATION OF FIXED ASSETS

Depreciation of £2,727,000 was charged to the HRA. This comprises £2,689,000 for dwellings and £38,000 for non dwelling housing assets.

### 7. IMPAIRMENT OF FIXED ASSETS

The council's Valuation Officer, a member of FRICS, has advised that there were no specific impairments during the year, however there was an overall impairment of £10,233,000 made up of £2,187,000 from a decrease in housing stock values for dwellings demolished prior to the two new build schemes and £8,046,000 being the difference between £8,592,000 housing capital expenditure and the assessed increase in effective value of only £546,000 (after applying the 45% factor as in note 2 above).



**NOTES TO THE HOUSING REVENUE ACCOUNT (con)**

**8. DWELLING RENTS (GROSS)**

This is the total rent income for dwellings for the year after allowance is made for voids etc. Average rents were £ 74.27 per week in 2009/10 ( £ 69.25 in 2008/09). Rents were increased on 1st April 2009 by an average of £5.02 per week.

**9. HOUSING SUBSIDY**

The Government used to pay a subsidy to the Housing Revenue Account. It was based upon a notional account representing the Government's assessment of what the council should be collecting and spending. However now that rent rebates have transferred to the general fund, the "subsidy" has become a "payment" to the government. It is made up as follows:

2008/09	Housing subsidy	2009/10
<b>£' 000</b>		<b>£' 000</b>
8,200	Management and Maintenance Allowance	8,403
3,709	Major Repairs Allowance	3,829
883	Charges for Capital	745
0	Rent rebates	0
12,792		12,977
-17,890	Notional Rent	-18,347
-7	Interest on Receipts	-5
-5,105	Sub-Total re Current Year's Subsidy	-5,375
-317	Adjustment re Previous Year's Subsidy	17
<b>-5,422</b>	<b>Total</b>	<b>-5,358</b>

**10. RENT ARREARS**

The figures are as follows:

2008/09		2009/10
<b>£' 000</b>		<b>£' 000</b>
879	Gross Rent Arrears at 31 March	801
-195	Prepayments of Rent	-289
684	Net Rent Arrears at 31 March	512
679	Provision for bad debts at 31 March	625
<b>%</b>		<b>%</b>
4.7	Gross rent arrears as a proportion of gross dwelling rent income	4.2

**11. HRA SHARE OF PENSIONS**

FRS17 has introduced a requirement to analyse the movement in the HRA share of the city council's element of the Kent pension fund (see also note 13 to the core financial statements). However, so that there is no demand on housing rents, the entries are reversed out via the Pensions reserve. The figures are as follows:

2008/09		2009/10
<b>£' 000</b>		<b>£' 000</b>
-143	HRA share of current service cost less employer contributions	-269
-237	HRA share of past service cost less employer contributions	-201
-380	Adjustment to "General management" line of HRA statement	-470
444	HRA share of pensions interest cost and expected return on	605
64	pensions assets	135
-550	Net charges made for retirement benefits in accordance with FRS17	-584
486	Employer's contributions payable to the Kent Pension Fund and	449
-64	retirement benefits payable direct to pensioners	-135
	HRA share of contributions to/from Pensions Reserve	
0	Net effect on HRA balance	0

**THE COLLECTION FUND**  
**INCOME AND EXPENDITURE ACCOUNT**

2008/09		Note	2009/10
<b>£ ' 000</b>	<b>INCOME</b>		<b>£ ' 000</b>
61,992	Council Tax (net of benefits & transitional relief)		63,611
8,633	Transfers from General Fund - Council Tax benefits		9,579
43,735	Income from business ratepayers	4	44,798
114,360			117,988
	<b>EXPENDITURE</b>		
	Precepts and demands:	2	
51,367	- Kent County Council		52,894
6,576	- Kent Police Authority		6,940
3,272	- Kent & Medway Fire & Rescue Authority		3,404
9,125	- Canterbury City Council (incl. Parishes)		9,555
70,340	Business rate	4	72,793
43,530	- Payment to national pool		44,591
205	- Costs of collection		207
	Bad and doubtful debts		
-103	- Write-offs		-249
326	- Provisions		530
	Contributions		
0	- From previous year's Collection Fund surplus		0
114,298			117,872
<b>-62</b>	<b>NET FUND SURPLUS (-) / DEFICIT FOR YEAR</b>		<b>-116</b>
149	COLLECTION FUND BALANCE AT 1 APRIL		211
211	COLLECTION FUND BALANCE AT 31 MARCH	2	327

## NOTES TO THE COLLECTION FUND ACCOUNTS

### 1. GENERAL NOTE

This account represents the statutory requirement for billing authorities to maintain a separate Collection Fund. The account is consolidated with the council's accounts. The accounts have been prepared on the accruals basis. Under the 1993 code there is no requirement to publish a separate Collection Fund Balance Sheet.

### 2a. "NEW" COLLECTION FUND ELEMENT

The items within the above account that relate to the "New" Collection Fund (i.e. excluding any adjustments relating to Community Charge) are as follows:

2008/09		2009/10
£ ' 000		£ ' 000
70,340	Precepts (excluding distribution of previous year's deficit)	72,793
223	Write-Off Provision	281
70,563		73,074
-70,625	Council tax (incl. benefits & subsidy scheme)	-73,190
-62	Surplus (-) / Deficit	-116
0	Precepts - Distribution of previous year's surplus / deficit(-)	0
-149	Balance at 1 April	-211
<b>-211</b>	<b>Balance at 31 March</b>	<b>-327</b>

An estimated break-even position at 31 March 2008 was forecast and notified to KCC, KPA and K&MF&RA in December 2007. A break-even position at 31 March 2009 was notified to all the above in December 2008. An estimated surplus of £300,000 at 31 March 2010 was notified to all the above in December 2009.

### 2b. APPORTIONMENT OF "NEW" COLLECTION FUND ELEMENT OVER PRECEPTORS

Under the 2009 SORP, the collection fund now has to be apportioned at the year-end across all of the major preceptors. This comprises two elements: the share of the estimated surplus of £300,000 which was notified in December 2009 pro-rata to the 2009/10 precepts, and the balance of £27,000 pro-rata to the 2010/11 precepts.

2008/09		2009/10
£ ' 000	Major Preceptors	£ ' 000
154	Kent County Council	238
20	Kent Police Authority	31
10	Kent Fire and Rescue Authority	16
<b>184</b>	<b>Total share by Major Preceptors</b>	<b>285</b>
27	Canterbury City Council (The council's own share is now shown in the balance sheet under the new heading - Collection fund adjustment account)	42
<b>211</b>	<b>Balance at 31 March</b>	<b>327</b>

**NOTES TO THE COLLECTION FUND ACCOUNTS (continued)**

**3. 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, was calculated as follows:

<b>2008/09 Band D Equivalent Dwellings</b>	<b>Band</b>	<b>Estimated Number of Taxable Properties after effect of discounts</b>	<b>Ratio</b>	<b>2009/10 Band D Equivalent Dwellings</b>
3,007	A	4,512	6 / 9	3,008
8,440	B	10,824	7 / 9	8,419
14,357	C	16,265	8 / 9	14,458
10,270	D	10,431	9 / 9	10,431
7,327	E	5,983	11 / 9	7,313
4,967	F	3,446	13 / 9	4,978
3,025	G	1,831	15 / 9	3,052
140	H	70	18 / 9	140
<b>51,533</b>		<b>53,362</b>		<b>51,799</b>
99.5%		Multiplied by Collection Rate		99.5%
<b>51,275</b>		<b>COUNCIL TAX BASE</b>		<b>51,540</b>

**4. INCOME FROM BUSINESS RATES**

Under the arrangements for uniform business rates, the council collects non-domestic rates for its area which are based on local rateable values multiplied by a uniform rate in the pound. The total amount, less certain reliefs and other deductions, is paid to a central pool (the NNDR pool) managed by central government. Authorities then receive back their share of the pool based on a standard amount per head of the local adult population. The amounts in these accounts can thus be analysed as follows:

<b>2008/09</b>		<b>2009/10</b>
<b>£ ' 000</b>		<b>£ ' 000</b>
(114,141) X (45.8p)	Non-domestic rateable value ( 113,537 )	
52,276	multiplied by small business rate ( 48.1 p)	54,611
-8,746	Less: allowances and other adjustments	-10,020
43,530	Net contribution due to NNDR national pool	44,591
205	Cost of Collection	207
<b>43,735</b>	<b>Income from business ratepayers</b>	<b>44,798</b>

There was a general revaluation of all properties effective from 1 Apr 2005 and a small business rate multiplier was introduced.

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

This statement, which was introduced by the 1995 code, sets out the respective responsibilities of the authority and the Director of Finance for the accounts. For the first time in 2009/10, the responsible financial officer is required by regulation 10(2) of the Accounts and Audit Regulations to certify that the accounts present a true and fair view.

### **The Authority's responsibilities**

The Authority is required to:

- ◆ make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance.
- ◆ manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- ◆ approve the Statement of Accounts.

### **The Director of Finance's responsibilities:**

The Director of Finance is responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the SORP").


In preparing this Statement of Accounts, the Director of Finance has:

- ◆ selected suitable accounting policies and then applied them consistently
- ◆ made judgements and estimates that were reasonable and prudent
- ◆ complied with the local authority SORP.

The Director of Finance has also:

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

The Statement of Accounts presents a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2010.

Signed 

Director of Finance

Date 22.9.10

## Annual Governance Statement to the 2009/10 Accounts

### Scope of responsibility

Canterbury City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Canterbury City Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Canterbury City Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Canterbury City Council has approved and adopted a local code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*.

A copy of the local code can be found on our website <http://www.canterbury.gov.uk/assets/finance/localcodeofgovernance.pdf> or can be obtained from the Assistant Head of Corporate Governance. This statement explains how Canterbury City Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

### The purpose of the governance framework

The governance framework comprises the systems, processes, culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Canterbury City Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Canterbury City Council for the year ended 31 March 2010 and up to the date of approval of the annual report and statement of accounts.

The key elements of the systems and processes that comprise the authority's governance arrangements are set out in the table below:

System & Process	Comment	Evidence
<ul style="list-style-type: none"> <li>▪ Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users</li> </ul>	<p>A vision of what the district will be like in 20 years' time has emerged following extensive consultation with local organisations and residents.</p> <p>This new picture incorporating the hopes and aspirations of the local community follows months of research and consultation.</p> <p>The council has worked with partners to formulate the vision to ensure it meets the needs and potential of Canterbury, Herne Bay, Whitstable and the surrounding villages</p>	<p>Community Strategy and Corporate Plan 2008 - 2012</p>
<ul style="list-style-type: none"> <li>▪ Reviewing the authority's vision and its implications for the authority's governance arrangements</li> </ul>	<p>The council's vision is stated in the Corporate Plan, which is reviewed every four years. The council has now adopted its third corporate plan, which will last until March 2012. The plan highlights the key priorities for the council over the next four years and how it will assess its performance in achieving these. We will report back to the public and other major stakeholders - like the voluntary sector and local businesses - on what we've achieved against the specific targets we have set ourselves.</p> <p>The quarterly review of the Strategic Risk Register effectively assesses the implications arising from the authority's vision.</p>	<p>Corporate Plan 2008-2012 Audit Committee &amp; Risk register</p>

System & Process	Comment	Evidence
<ul style="list-style-type: none"> <li>▪ Measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources</li> </ul>	<p>Under the Local Government Act 1999, all Councils have a duty to provide services efficiently, effectively and economically. Canterbury has a programme of efficiency reviews which is revised each year to make sure it takes into account any new government initiatives, local developments and changes within the Council.</p> <p>The Council monitors its performance against a range of performance indicators including Key Local Performance Indicators and statutory National Performance Indicators. Targets for KLPIs are set out in our Strategic Plan and targets for NPIs are set out in our Service Plans. Performance is reported to the management team and councillors/executive on a six monthly basis.</p> <p>Independent Audit Reviews are carried out annually on a sample of these Performance Indicators to ensure the information used is true and the calculations correct. Audit also checks that the definition of the indicator has been comprehensively understood.</p>	<p>Efficiency Review Programme</p> <p>User satisfaction surveys</p> <p>PRISM (Performance, Risk, Improvement, Service, Management) for Performance Indicators</p> <p>Annual Audit reviews of Performance Indicators and Data Quality.</p>
<ul style="list-style-type: none"> <li>▪ Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication</li> </ul>	<p>Each member of the Executive has specific portfolio responsibilities - for example: culture, tourism, environment, housing and finance. Decision-making is by collective responsibility. This way of working ensures the council is accountable in its decision-making, and therefore more open to public scrutiny.</p> <p>These roles and responsibilities are clearly defined and published in the Executive Minutes. The terms of reference of Committees and officers delegated powers all form part of the Constitution, which is revised regularly and updated. A full revision is carried out each year and was presented to full Council in May 2009 to be agreed and adopted.</p> <p>The Constitution including a summary of roles and responsibilities is available on the authority website and on the Intranet</p> <p>Attendance records of every Councillor can be viewed by the public on the Internet enabling them to see how often councillors attend committee meetings.</p>	<p>Constitution of the Council available on the Website and Intranet.</p> <p>Attendance records for Councillors on the Internet</p>



System & Process	Comment	Evidence
<ul style="list-style-type: none"> <li>▪ Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff</li> </ul>	<p>The Council has adopted the model code of conduct for members and supplementary protocols including the 10 general principles of member conduct. The Code of Conduct for employees is part of the conditions of service, and included in the induction pack given to all new employees. It is also published on the Intranet, which is accessible to all employees. A new Information Security Policy has been written and approved by Members and this includes the Acceptable Use Policy. Officers are also required to certify their acceptance of the Information Security Policy including the Acceptable Use Policy, whenever they sign on to a council computer.</p>	<p>Terms and Conditions of Employment. Council's Constitution Standards Committee Information Security Policy</p>
<ul style="list-style-type: none"> <li>▪ Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff (cont)</li> </ul>	<p>Members' code of conduct is clearly defined in the Constitution of the Council and follows the national standard suggested by Government.</p> <p>Annual reminders are sent to staff and members informing them of their duty to abide by the Code of Conduct and all interests and hospitality received are documented at a central point with a delegated responsible officer. All Members' expenses will be published on the Internet to demonstrate visibly the values of good governance.</p> <p>The Personal Development Appraisal (PDA) form incorporates a section on specific council policies and codes which the employee has to acknowledge as being read and understood. The policies included are the Information Security Policy, The Code of Conduct for Employees, The Equalities and Inclusion Policy and the Anti Fraud, Corruption and Whistle Blowing Policy.</p> <p>Training in the application and enforcement of these policies is covered by the suite of courses offered by the East Kent HR Partnership and by Finance. Refresher training is carried out for all staff as statute redefines the policies.</p>	<p>PDA Process Gifts and Hospitality Register Member Declarations of Interest Members Expense claims on the Internet. Training courses</p>

System & Process	Comment	Evidence
<ul style="list-style-type: none"> <li>▪ Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks</li> </ul>	<p>The Director of Finance is responsible for maintaining a continuous review of the authority's Financial Regulations and submitting any additions or changes necessary to Full Council for approval.</p> <p>The Kent Authorities Contract Standing Orders have been adopted at Canterbury with few amendments. Added to this the Procurement team actively encourage leading officers on a project to discuss the procurement of goods and services to ensure all decisions made on expenditure are fair, transparent and open. Independent monitoring of contracts is undertaken to satisfy the council's stakeholders that policies and procedures are followed.</p> <p>The Risk Management Policy of the Canterbury City Council is to adopt best practice in the identification, evaluation and cost-effective control of risks to ensure that they are either eliminated or reduced to an acceptable level.</p>	<p>Financial Regulations and Contract Standing Orders available in the Constitution and on the Internet.</p> <p>Risk Management Policy available on the Intranet.</p> <p>Procurement policy on the Internet</p>
<ul style="list-style-type: none"> <li>▪ Undertaking the core functions of an audit committee, as identified in CIPFA's <i>Audit Committees – Practical Guidance for Local Authorities</i></li> </ul>	<p>An Audit Committee has been established and meets quarterly. The Committee consists of 5 councillors (plus 2 reserves) and an independent Chairman.</p> <p>Their activity and regulatory framework is clearly identified in the Council's Constitution and also on the Councils Web site. The core functions follow CIPFA's practical guidance.</p>	<p>Constitution of the Council</p> <p>Audit Committee Terms of Reference</p>

System & Process	Comment	Evidence
<ul style="list-style-type: none"> <li>▪ Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful</li> </ul>	<p>Managers at all levels are responsible for ensuring their service is compliant with relevant laws and regulations. The council has extensive, detailed and clear policies and procedures to give guidance to staff and management and to identify responsibilities.</p> <p>A Policies and Procedures Archive (PaPA) is attached to the Council's Intranet site which allows all staff access to every policy or procedure that needs to be complied with.</p> <p>Internal Audit carries out regular reviews of systems ensuring full compliance with relevant laws, regulations, internal policies and procedures. The frequency of each system audited is assessed by a risk scoring mechanism – the higher the risk the more frequent an Audit review is undertaken.</p> <p>The Audit Commission carries out annual inspections to verify compliance.</p>	<p>Contract Standing Orders &amp; Purchasing Guidance</p> <p>Financial Regulations</p> <p>PaPA (electronic Policies and Procedures Archive)</p> <p>Annual Audit Plan</p>
<ul style="list-style-type: none"> <li>▪ Whistle-blowing and other means of receiving and investigating complaints from the public</li> </ul>	<p>The Council's Anti Fraud and Corruption Policy includes a section on Whistleblowing procedures and is included on induction courses which all new employees have to attend. This policy was updated in early 2010 and further work will be undertaken to raise its profile. Personnel records of training carried out are maintained and regular reports are produced to identify gaps in training. Refresher sessions are organised to ensure all staff are aware of this policy.</p> <p>Posters and leaflets are on show around the council offices to publicise this policy, which is available to all staff on the Intranet (PaPA).</p> <p>All suppliers and contractors have been notified either by email or letter that the Anti Fraud and Corruption Policy including Whistleblowing is to be adhered to by their staff while they are working for the council. All new suppliers are notified of this policy and directed to it on the website.</p> <p>The complaints procedure is available on PaPA to all staff and a range of performance indicators ensure all complaints are dealt with according to this procedure. Results of the indicators are publicised to staff on PRISM. Customers are advised of the procedure both electronically on the authority website and at the council offices via posters and leaflets available in the public areas.</p>	<p>PaPA</p> <p>Anti-fraud &amp; Corruption &amp; Whistle-blowing Policy</p> <p>Induction manual</p> <p>PRISM</p> <p>Leaflets and posters available in the public areas</p> <p>Letters to suppliers and contractors.</p> <p>New suppliers BACS forms</p>

System & Process	Comment	Evidence
<ul style="list-style-type: none"> <li>▪ Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training</li> </ul>	<p>Every officer has a Performance and Development Appraisal (PDA) annually with a 6 monthly review. This identifies the direction they need to work towards, the projects that need to be carried out and if there are any training needs.</p> <p>The Competency Framework is also completed at this stage, which looks at the competencies needed for the job and the competencies needed for improvement and promotion. This also identifies training needs. The PDA forms identify training needs and these are listed on the PS2000 Payroll system and used to inform future training sessions that need to be organised.</p> <p>Members are required to attend relevant training to ensure that they are equipped for particular roles. Informed by a member survey and officer assessment, skills training is made available to members generally.</p>	<p>PDA Training Guide on the Intranet Training module on the PS2000 Member Training Programme</p>
<ul style="list-style-type: none"> <li>▪ Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation</li> </ul>	<p>There is a detailed strategy on the website called Getting the Message Across – a Strategy for Marketing, Public Relations and Consultation.</p> <p>Customer Charters identify how we will consult with all stakeholders and encourage communication with all our stakeholders.</p> <p>Council departments each achieved Customer Service Excellence awards leading to a corporate award in early 2010. To achieve this standard, the council provided evidence that clear channels of communication with all sections of the community and stakeholders had been established and were continually improving.</p> <p>Consultations with the residential groups are carried out before awarding major housing contracts.</p>	<p>Community Strategy Corporate Plan Strategy for Marketing, Public Relations and Consultation. Charter Mark evidence Customer Service Excellence awarded corporately in January 2010</p>

System & Process	Comment	Evidence
<ul style="list-style-type: none"> <li>■ Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships (<i>Governing Partnerships: Bridging the Accountability Gap</i>, Audit Commission, 2005), and reflecting these in the authority's overall governance arrangements.</li> </ul>	<p>Article 11 of the constitution offers explanatory notes on joint working arrangements, the procedures for access to information and the delegation of duties under joint working arrangements.</p> <p>The Canterbury District Community Partnership is set up to strengthen the connection between public sector agencies, local government the voluntary and community sectors businesses and local residents. There is a very tight protocol which gives clear responsibilities for the Executive Board and all partners.</p> <p>The Council is working in partnership with the East Kent Authorities and Kent County Council to provide a range of Shared Services. The Governance arrangements for these Shared Services projects are considered by the East Kent Joint Arrangements Committee. Final approval is given by each individual Council.</p>	<p>Constitution Partnership Agreements Canterbury District Community Partnership Protocol</p> <p>Shared HR and Payroll project</p> <p>East Kent Joint Arrangements Committee.</p>

### Review of effectiveness

Canterbury City Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of East Kent Audit Partnership's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework are given in the table below:

DESCRIPTION OF KEY ELEMENTS	ROLE	REVIEW OF EFFECTIVENESS
<p>1. The Authority</p>	<p>The Authority's objectives are set out in its Corporate Plan. These are based on 7 themes, which are:</p> <ol style="list-style-type: none"> <li>1. Reputation;</li> <li>2. Focusing on people;</li> <li>3. Creating a quality district;</li> <li>4. Encouraging innovation and enterprise;</li> <li>5. Promoting participation in culture, leisure and play by all;</li> <li>6. Promoting and providing environmental leadership;</li> <li>7. Improving accessibility, links and connectivity.</li> </ol>	<p>A wide range of control and reporting mechanisms are in place to monitor performance against the Corporate Plan and Community Strategy. These include both internal mechanisms: such as the Overview and Scrutiny Role; Risk Management; Budget Monitoring &amp; Control; the Performance Management framework and the procedures set out in the Council's Constitution, and externally Resident / Public consultation and Satisfaction Surveys.</p>
<p>2. The Executive</p>	<p>The role of the Executive is to lead the implementation of council policy within the council's budgetary and control framework.</p>	<p>The Overview and Scrutiny Committee monitor the Executive and there have been only two call ins during the year 2009/10. The control and reporting mechanism listed under 1 above also act as a review of the performance of the Executive.</p>

DESCRIPTION OF KEY ELEMENTS	ROLE	REVIEW OF EFFECTIVENESS
3. The Audit Committee	<p>The Audit Committee's role is split into 3 areas: Audit – overseeing and reviewing the results of internal and external audit activity;</p> <p>Regularity – overseeing and reviewing procedures relating to contract procedures, financial regulations, codes of conduct, anti-fraud &amp; corruption and whistle-blowing arrangements, risk management and complaints;</p> <p>Accounts – reviewing the annual accounts and considering whether there are any matters of concern to raise.</p>	<p>The Audit Committee approved the 2009/10 Audit Plan setting out the programme of work for reviewing and monitoring the activities of the Council, in particular its internal financial controls.</p> <p>Quarterly updates of progress against this plan were reported to this committee and a summary annual report in June 2009, including a review of the effectiveness of Internal Audit.</p> <p>Quarterly reports of the Strategic Risk Register are made to this committee after they have been updated by Heads of Service</p> <p>The annual accounts are considered annually at the June Meeting</p>
4. The Standards Committee	<p>The role of the Standards Committee is to promote high standards of conduct by councillors, to assist them to observe the council's Code of Conduct, and to perform other functions of a similar nature.</p>	<p>The Standards Committee meets on a regular quarterly basis to consider these matters and reports annually on or around June of each year.</p>
5. Internal Audit	<p>The role of Internal Audit can be summarised as "To give an independent opinion on the adequacy, effectiveness and operation of controls within the Authority's systems".</p>	<p>The conclusion in the annual report of the Head of the East Kent Audit Partnership for 2009/10 was "there are no major areas of concern, which would give rise to a qualified audit statement regarding the systems of internal control concerning either the main financial systems or overall systems of corporate governance."</p>
6. Other reviews / Assurance Mechanism	<p>Performance and Value for Money is achieved through the work of the Policy and Improvement Division and the Scrutiny Committee and the Audit Commission also report on these areas under the Use of Resources Judgements.</p>	<p>Scrutiny reviews concluded during 2009/10 were as follows:          Outside bodies, Environment economy, City Life and Patient Transport (by the Health Scrutiny Panel)</p>

## Significant Governance Issues

The council identifies and monitors significant governance issues through its Strategic Risk Register.

How the council identifies and assesses its corporate risks and how the Risk Register and then the Annual Governance Statement is set out in detail in the council's **Local Code of Governance** and **Risk Management Policy**, available on the council website.

In summary the risk register is updated from the following sources: -

- Risks identified by individual officers during the course of their work,
- Risks identified from both internal and external audit reports.
- Risks identified in the course of the annual risk reviews carried out with Heads of Services.
- Risks identified from assessments carried out in other council reports notably Project Scope and Project Brief documents.
- Risks identified during the course of the Risk Register review process, notably Heads of Service, Management Team and Audit Committee.
- Risks identified at Management Team and Departmental Team meetings. These are standing agenda items.

In summary the risk register is monitored and reviewed quarterly by the following: -

- Heads of Service
- Management Team
- Audit Committee

The Strategic Risk Register is a public document updated and published quarterly in the agenda of the Audit Committee and available on the council's website [www.canterbury.gov.uk](http://www.canterbury.gov.uk) (search on Strategic Risk Register).

The significant governance issues identified below are linked thematically with reference to the individual risk listed on the risk register. The steps the council is taking to either control or mitigate these risks are recorded on the risk register including reference to other action plans and reports where appropriate.



### ***Delivering Major Projects***

The council is committed to delivering several high profile projects, notably the New Marlowe Theatre.

The council has committed to these projects against a backdrop of considerable financial uncertainty due to the recession and concerns with the public finances. Due to the economic situation a greater proportion of financing of these projects has been via prudential borrowing rather than capital sales, which would normally be the case. This will increase the overall level of council debt repayment in future years. The council has concluded that these projects are important to the future economic development of the district and continued provision of high quality local services.

Individually each project has a range of risks, notably the long-term financial commitment. Collectively the delivery of these projects impact on corporate capacity although this is mitigated by the work of the corporate projects team.

This year has seen a change in the risk profiles of the Marlowe and Beaney projects as they moved from the planning phase into the construction phase. The construction of the new theatre is progressing well and the main works on the Beaney will begin shortly.

*As listed on the Risk Register: -*

- New Marlowe Theatre
- Beaney Redevelopment
- Herne Bay High School New Sport Facilities
- Football Hub Project
- Coastal Regeneration

### ***Maintaining Effective Internal Processes & Strong Internal Controls***

The maintenance of effective internal processes is intrinsically linked to the effectiveness of the council's governance arrangements, how services are delivered and how it manages its risks. For this reason, they are regularly subject to internal and external review e.g. the Use of Resources assessment; part of the Comprehensive Area Assessment.

Maintaining internal processes can be difficult as they often lack the immediacy of other corporate goals and require an ongoing commitment. Improvement gains made often seem small and yet these processes often directly impact on the community.

Critical amongst the council's internal processes is its system of internal controls. These deal directly with the management of the council's risks. Regular review of these processes supported by internal and external audit is an important part of the overall governance process.

At both national and local levels, there is also public concern over the probity of elected post holders and the council recognises these concerns and the corrosive impact this can have on public trust. The council has in place a combination of governance processes and counter fraud measures intended to ensure that anyone elected to represent, work with, or work for the council, acts appropriately.

*As listed on the Risk Register: -*

- Fraud & Corruption
- New International Financial Reporting Standards
- Business Continuity (ICT Service)
- Information Management
- Safeguarding Children
- Equalities & Discrimination Legislation
- Management Skills & Staff Development
- Fire Risk Assessments
- Capita Housing Rents IT System

### ***Managing Finances***

Council finances have come under increasing pressure as the council has sought to maintain high levels of service with diminished levels of income and government funding.

The main pressures on council funding are: -

1. Central Government – Extensive cuts in the central government funding for local government are expected both directly and indirectly through the withdrawal of funding for specific initiatives (e.g. Supporting People Funding).
2. Inflationary Pressures – Inflation in general has exceeded expected targets. Service delivery costs notably the Waste Management contract and Active Life grant are strongly influenced by energy costs, in particular fuel costs, which remain high and prone to sudden and disproportionate increases.
3. Reduced Incomes & Charges – Lower incomes notably parking, land charges and commercial rents.
4. Major Projects – Increased financial commitments to major projects like the New Marlowe Theatre and reductions in external regeneration funding.

The council has sought to mitigate these risks within its medium term financial strategy and by seeking greater service efficiencies and direct cost savings. The council's ability, however, to absorb financial risks and increased costs is now much reduced and likely to diminish further.

The council continues to work hard to recover its deposits with the Icelandic banks Glitnir and Heritable. The council has already succeeded in recovering £1.46 million of the overall £6 million investment. Recovery of some of the remaining amount is proving difficult but the council remains confident that in time a substantial amount of the original investment will be recovered.

*As listed on the Risk Register: -*

- Budget Management
- Building Maintenance Funding
- Banking Crisis & UK Public Finances
- Supporting People
- Land Charges

#### ***Working with Partners***

There has been an emphasis in recent years on greater service delivery through partnerships. These partnerships range from key contractors notably SERCO and Mears Ltd to smaller community based groups. The council is now fully engaged in developing shared service arrangements with the neighbouring local authorities as well as KCC.

The council has given a good degree of consideration to the risks that arise from the different forms of partnership working and developed processes that consider how partnerships are entered into, their ongoing governance, and exit strategies. Successful partnership remains critical to the successful delivery of council services and therefore the risks arising from these are considered regularly within the risk register.

*As listed on the Risk Register: -*

- Shared Services
- Shared Landlord Services Project
- Active Life
- Anti-Social Behaviour
- CHARM (Housing Repairs) Contract
- Horsebridge Arts & Community Centre

**Responding to Major Emergencies**

The council already works with other emergency responders notably Kent County Council in the preparation and testing of emergency plans and business continuity plans. The council has always taken special regard to improving flood resilience within the district and this work continues.

*As listed on the Risk Register: -*

- Sea Defences & Inland Flooding (Management & Response)
- Business Continuity (General)

**Corporate Governance Opinion**

The audit committee has advised us on the implications of the result of the review of the effectiveness of the governance framework. The actions listed in the strategic risk register are aimed at addressing risks and ensuring continuous improvement of the governance systems in place.

We will continue to monitor these actions to further enhance our governance arrangements. We are satisfied that these will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: .....  
Leader

Signed: .....  
Chief Executive

on behalf of Canterbury City Council

# **Independent auditor's report to Members of Canterbury City Council**

## **Opinion on the accounting statements**

I have audited the Authority accounting statements and related notes of Canterbury City Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Canterbury City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

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

The Director of Finance's responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the "Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice" are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

## **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

## **Opinion**

In my opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the "Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice", of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

## **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Council's Responsibilities**

The Council 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 regularly to review the adequacy and effectiveness of these arrangements.

### **Auditor's Responsibilities**

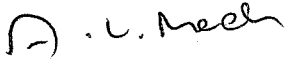
I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Canterbury City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

## Certificate

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



Andy Mack  
Officer of the Audit Commission

16 South Park  
Sevenoaks  
Kent  
TN13 1AN

Date: 28 September 2010