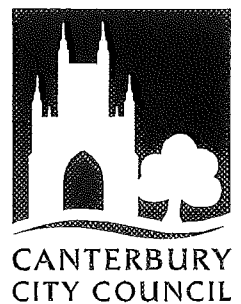


Statement of Accounts

for the Year Ended

31 March 2012

Patricia Marshall CPFA
Director of Resources



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 bringing in Heritage Assets on to the balance sheet e.g. insurance valuation for museum exhibits, when they have previously been held at historic cost basis. This change has been backdated and so previous year's balances have also been restated.

1.2. This follows the major revision of all the statements last year when full International Financial Reporting Standards (IFRS) were adopted, rather than the old UK GAAP basis under the Statement of Recommended Practice (SORP).

1.3. Contents of Statement of Accounts

The council's accounts for the year 2011/12 are set out on pages 6 to 66.

They consist of:

The (main) financial statements:

- (a) the **Movements in Reserves Statement** – reconciles the Income and Expenditure account to the General Fund Balance.
- (b) the **Comprehensive Income and Expenditure Statement** – the council's main revenue account, covering income and expenditure on all services plus gains and losses for the year.
- (c) the **Balance Sheet** – which sets out the financial position of the council on 31 March 2012.
- (d) the **Cash Flow Statement** – which summarises the total movement of the council's funds.
- (e) Note 1 – **Statement of Accounting Principles**
- (f) The **remaining 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.

1.4 This Foreword (pages 1 to 5) provides a brief explanation of changes to the statement, the council's outturn financial position for 2011/12 and budget strategy for 2012/13.

2. BUDGET STRATEGY IN 2012/13

The council's budget preparations were developed over the course of the year in order to present estimates for 2012/13-2015/16 to Executive on 16 January 2012 and Full Council on 16 February 2012. 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 state of public finances and the Comprehensive Spending Review) were reported in November 2011 as:

- (a) Maintain the 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
- (e) Review highly subsidised services and review charges to move more towards "user pays" rather than council taxpayer pays.

2. BUDGET STRATEGY IN 2012/13 (continued)

- (f) Make no general price inflation provision.
- (g) Maximise joint working opportunities by defining a clear vision and timetable for the next three years.
- (h) Achieve a balanced budget.
- (i) Take account of the policy on reserves and balances approved by Council in February 2007.
- (j) On a short-term basis, seek to ensure that the 2012/13 budget is as close to that in the 2011 budget projections as it can be, taking account of unavoidable growth and grant changes.

The Executive and council considered the position and made changes which enabled the council to freeze the council tax increase.

3. DIFFERENCES BETWEEN PLANS AND OUTTURN FOR 2011/12

The purpose of this statement is to give an indication in broad terms of the main differences between plans and outturn for 2011/12 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
Expenditure				
Net expenditure (excluding Parish precepts)	19,767	19,838	19,698	-140
Add : Parish precepts	587	587	587	0
Total Expenditure	20,354	20,425	20,285	-140
Income				
Revenue support grant	2,478	2,478	2,478	-
NNDR allocation	8,017	8,017	8,017	-
Met by local council taxpayers [9849+59]	9,908	9,908	9,908	-
Total Income	20,403	20,403	20,403	-
Deficit / surplus(-) for the year (i.e. amount contributed to balances)	-49	22	-118	-140
Balance brought forward	2,509	3,500	3,500	-
Balance carried forward	2,558	3,478	3,618	-140

The actual general fund surplus of £118k agrees with the figure in the Movement in Reserves Statement. The grant income agrees with the sources of finance in note 22 on p.45.

The overall position for the financial year 2011/12 was as follows:	£ ' 000
Original Budget (excluding Parish Precepts)	19,767
Additional approved budget utilised	61
Approved carried forward	10
Approved budget for 2011/12	19,838
Actual expenditure	19,698
Net underspend	-140
Major variations between Actual and Approved Budget were:	£ ' 000 £ ' 000
Underspendings and additional income	
Superannuation claw-back savings	-340
Parking income: off-street (-166), on-street (-70), park & ride (-45)	-281
Staff savings-Finance (-142), Audit (-64), Resources (-39)	-245
Corporate contingencies not utilised	-241
Reduced interest payable(-104), minimum revenue provision (-119)	-223
Housing benefit subsidy	-177
EK Shared Services - fee rebate	-164
	-1,671

3.1. General Fund Revenue Expenditure (continued)

Major variations between Actual and Approved Budget (cont'd):		£ ' 000	£ ' 000
Underspendings and additional income (cont'd)	b/f from previous page		-1,671
Community safety unit (-85) & recycling savings (-65)		-150	
KCC grant cut contingency savings		-122	
Interest receipts		-104	
Staff savings etc-Chief Executive dept.(-60) Central Services (-43)		-103	
Development control staff savings (-49), Website savings (-42)		-91	
Land charges - additional income (-36) & new burdens grant (-34)		-70	
Other savings (net)		-18	
			-658
Offset by : Income shortfalls			-2,329
Development control income shortfall		198	
Building control income shortfall		172	
Museums income shortfall		76	
and Overspendings / Additional contributions to reserves			446
Unapplied Capital Grant Funding		325	
Contribution to reserve for potential MMI liabilities		282	
Marlowe Theatre - operational deficit		262	
Contribution to restructure reserve		200	
Contribution to environmental services contract procurement resv.		126	
Customer focus review consultants		102	
Recharges to Non General Fund		101	
Contribution to computer renewals reserve		100	
Document Imaging service contracts and General photocopiers		92	
Financing costs for HB Leisure Centre		81	
Commercial Health - staffing & legal costs		72	
			1,743
NET UNDERSPEND			-140

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	Revised Estimate	Actual	Difference from Original
	£ ' 000	£ ' 000	£ ' 000	£ ' 000
Expenditure				
Repairs and maintenance	4,524	4,524	5,448	924
Supervision and management etc. (incl. rent, rates & contribution to reserves & bad debt provision)	5,768	5,768	5,671	-97
Housing subsidy payable	6,548	6,548	6,479	-69
Interest and similar charges	449	374	436	62
Depreciation charge plus MRR transfer	3,912	3,912	3,738	-174
Capital exp. charged to revenue	690	971	572	-399
Unapplied Capital Grant Funding			-325	-325
Total Expenditure	21,891	22,097	22,019	-78
Income				
Gross rent income	20,618	20,618	20,690	-72
Charges for services and other income	1,493	1,493	1,535	-42
Interest on mortgages and balances	53	53	26	27
Total Income	22,164	22,164	22,251	-87
Surplus(-) / deficit for the year	-273	-67	-232	-165
Balance brought forward	1,819	1,594	1,594	-
Balance carried forward	2,092	1,661	1,826	-165

Housing resource accounting introduced the need to charge depreciation on council dwellings which was initially covered by additional housing subsidy. The £1,826k balance agrees to p.59. 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 £25,766,000 on capital schemes in 2011/12. This was financed by grants, capital receipts, revenue and borrowing.

The major capital spending was £4,516,000 on the Marlowe Theatre redevelopment, £6,782,000 on the Beany Institute development and £1,220,000 re the Heron's sports centre extension.

There was some slippage in the general fund capital programme on various schemes.

Capital Expenditure	Original Estimate	Approved Estimate incl. c/f's & addns.	Actual	Difference from Approved
	£ ' 000	£ ' 000	£ ' 000	£ ' 000
Housing capital	8,129	8,293	8,009	-284
Coast protection capital	759	686	733	47
Other general fund capital	14,177	18,168	17,024	-1,144
Total Capital Expenditure	23,065	27,147	25,766	-1,381

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 £39.8m in March 2011 to £132.1m in March 2012 including an additional £92.6m of a £96.8m housing settlement determination payment, whilst its investments decreased from £18.6m to £6.2m (see note 11.5) - an increase in net borrowing of £104.7m. 98.5% 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 2.47%.

5A. HOUSING SETTLEMENT DETERMINATION PAYMENT

From 2012/13 HRA financing is changing from the subsidy system to a self-financing system. This means that in return for a settlement determination payment of £96.8m financed by taking on £96.8m debt from the government's PWLB (with annual debt payments in the region of £6.5m), the council will no longer have to pay annual subsidy to the government. Although the repayments will equal the annual subsidy of £6.6m in 11/12, this will avoid the normal annual increases in subsidy payable, and the debt will be paid off in 19 years.

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. Note 30 shows that the total value of liabilities (i.e. future commitments from the fund) is council's net liability is £137.6m whereas the estimated assets are valued at £83.1m - a net deficit of £54.5m - which is being made up over a number of years by increasing the rates at which contributions are payable into the fund. The deficit has increased from £35.9 million to £54.5 million at 31 March 2012, an increase of £18.6 million.

7. CHANGE IN ACCOUNTING POLICY

The Council has again had to prepare these financial statements in accordance with International Financial Reporting Standards (IFRS) rather than the old UK GAAP basis under the Statement of Recommended Practice (SORP).

The only further change in accounting policy required under the 2011 code relates to the valuation of Heritage Assets. This has resulted in an increase in Property, Plant and Equipment Assets of £9,233k backdated to 1 April 2010 with a corresponding increase in the Revaluation Reserve.

Note 31 on pages 52 and 53 explain the main changes relating to Heritage Assets and the effect it has had on the Balance Sheet balances at 1 April 2010 and 31 March 2011.

8. NOTE RE BALANCE SHEET

The purposes of each of the other main statements are set out above the statement itself, however due to shortage of space on that page, the note re the Balance Sheet is set out below:

The Balance sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the council. The net assets of the council (assets less liabilities) are matched by the reserves held by the council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (e.g. the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). The second category of reserves is those that hold unrealised gains and losses (e.g. the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

9. IMPACT OF THE CURRENT ECONOMIC CLIMATE ON THE COUNCIL

Paragraph 2 above has already outlined the budget strategy in 2012/13 and the main principles that were taken into account both for the 2012/13 budget and for the next three financial years to 2015/16. The estimates for 2012/13 are soundly based and therefore robust. As the projections are rolled forward, due to the predicted reductions in government grant as contained in the spending review, it becomes increasingly difficult to achieve sustainable medium term proposals. The council has therefore committed itself to a further programme of budget prioritisation and customer service reviews following consultation so as to make savings in 2012/13 and beyond and Heads of Service are committed to deliver further savings with the intention that these measures achieve reductions in gross budgets of the equivalent of 20% over the projection period.

In addition to the general fund balance, the council has a number of earmarked reserves, some of which are accumulated funds which are being used to support the revenue budget on a phased basis. This is a sound approach which will help to avoid sharp fluctuations in Council Tax demands.

10. 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, due to pension savings, additional car parking income and staff savings due to the restrictions on filling vacant posts. The HRA is slightly overspent due to a significant repairs and maintenance overspend mainly offset by reductions in capital financing. There are underspendings in general fund 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.

Director of Resources

29 June 2012

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the council, analysed into "usable reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or Deficit on the Provision of Services line shows the true economic cost of providing the council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase or Decrease before Transfers to / from Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council. The balance for Unusable Reserves (re the Revaluation Reserve) has been restated at 1 April 2010 re the change in accounting policy regarding the valuation of Heritage Assets (an increase of £9,573k)

General Fund Balance	Earmarked Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
£'000	£'000	£'000	£'000	£'000	£'000	£'000	As restated £'000	As restated £'000
2,509	11,130	2,326	188	7,830	1,596	25,579	328,059	353,638
17,617	0	(64,348)	0	0	0	(46,731)	0	(46,731)
0	0	0	0	0	0	0	25,347	25,347
17,617	0	(64,348)	0	0	0	(46,731)	25,347	(21,384)
(17,489)	0	63,672	0	(3,026)	666	43,823	(43,823)	0
128	0	(676)	0	(3,026)	666	(2,908)	(18,476)	(21,384)
863	(807)	(56)	0	0	0	0	0	0
991	(807)	(732)	0	(3,026)	666	(2,908)	(18,476)	(21,384)
3,500	10,323	1,594	188	4,804	2,262	22,671	309,583	332,254

MOVEMENT IN RESERVES STATEMENT (con.)

General Fund	Earmarked Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
3,500	10,323	1,594	188	4,804	2,262	22,671	309,583	332,254
(3,044)	0	(101,564)	0	0	0	(104,608)	0	(104,608)
0	0	0	0	0	0	0	17,367	17,367
(3,044)	0	(101,564)	0	0	0	(104,608)	17,367	(87,241)
2,777	0	101,739	(188)	(3,908)	240	100,660	(100,660)	0
(267)	0	175	(188)	(3,908)	240	(3,948)	(83,293)	(87,241)
385	(442)	57	0	0	0	0	0	0
118	(442)	232	(188)	(3,908)	240	(3,948)	(83,293)	(87,241)
3,618	9,881	1,826	0	896	2,502	18,723	226,290	245,013

Balance at 31 March 2011

Movement in reserves during 2011/12

Surplus or (deficit) on provision of services

Other Comprehensive Income and Expenditure

Total Comprehensive Income and Expenditure

Adjustments between accounting basis and funding basis under regulations (Note 6)

Net Increase / (Decrease) before Transfers to Earmarked Reserves

Transfers to / from Earmarked Reserves (Note 7)

Increase / (Decrease) in Year

Balance at 31 March 2012 carried forward

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

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations. This may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2010/11			2011/12			
Gross Expenditure	Income	Net Expenditure	Gross Expenditure	Income	Net Expenditure	
£' 000	£' 000	£' 000	£' 000	£' 000	£' 000	
			Gross expenditure & income and net exp'd of continuing operations			
9,309	-2,218	7,091	Cultural & Related Services	22,840	-6,193	16,647
10,516	-1,934	8,582	Environmental & Regulatory Services	10,979	-1,630	9,349
6,958	-3,174	3,784	Planning Services	6,959	-2,565	4,394
			Highways & transport services			
579	-286	293	Highways	566	-204	362
7,674	-8,451	-777	Parking services, public transport & harbour	5,483	-7,725	-2,242
			Housing services			
23,861	-21,060	2,801	Housing Revenue Account (HRA)	28,032	-22,225	5,807
0	0	0	Exceptional item-HRA settlement determination payment	96,828	0	96,828
61,179	0	61,179	Exceptional item-impairment from HRA valuation loss from redn.in social housing discount factor	0	0	0
41,023	-41,159	-136	Housing benefits payments & administration	44,362	-44,270	92
2,908	-2,089	819	Other housing services (non HRA)	2,217	-1,438	779
			Central services			
1,489	-572	917	Local tax collection costs	1,211	-534	677
11,260	-11,036	224	Council tax benefits	11,054	-10,821	233
672	-269	403	Other central services	913	-332	581
4,637	-918	3,719	Corporate and Democratic Core	3,595	-439	3,156
0	-3,155	-3,155	Non Distributed Costs - Pensions (Note 30)	-408	0	-408
0	-11,894	-11,894	- Exceptional item - Pension capitalised gains	0	0	0
40	0	40	- Impairment losses re non-operational assets	-8	0	-8
182,105	-108,215	0	Cost of Services	234,623	-98,376	0
			Other operating expenditure			
0	-262	-262	Net gain(-) / loss on sale of fixed assets	0	-673	-673
693	0	693	Parish council precepts & drainage board levy	708	0	708
301	0	301	Housing capital receipts cont. to govt. pool	800	0	800
			Financing and investment income and expenditure			
1,284	0	1,284	Interest payable on debt (Note 11.2)	1,343	0	1,343
94	0	94	Impairment of financial instruments (curr.yr.)	25	0	25
7,907	0	7,907	Pensions interest costs (Note 30)	6,417	0	6,417
0	-5,856	-5,856	Expected return on pension assets (Note 30)	0	-5,632	-5,632
5	-566	-561	Investment interest income (Note 11.2)	15	-504	-489
0	-3,956	-3,956	Rentals received on investment properties	0	-4,172	-4,172
577	0	577	Expenses incurred on investment properties	537	0	537
3,196	0	3,196	Changes in fair value of investment properties	-537	0	-537
187	-231	-44	Surplus from trading operations (Note 21)	178	-242	-64
			Taxation and non-specific grant income			
0	-7,375	-7,375	Recognised capital grants & contributions	0	-8,884	-8,884
0	-9,847	-9,847	Income from the Collection Fund	0	-9,849	-9,849
0	-13,310	-13,310	General government grants (Notes 8 & 22)	0	-11,169	-11,169
		46,731	Surplus (-) or Deficit on provision of services			104,608
		13,008	Surplus (-) or deficit on revaluation of non current assets (note 19.1)			-37,144
		-38,355	Actuarial gains (-) / losses on pension fund assets & liabilities (see note 30 for details)			19,777
		21,384	Total Comprehensive Income and Expenditure			87,241

The main reason for the deficit this year is the one-off HRA refinancing settlement payment to the government of £96,828k.

BALANCE SHEET AS AT 31ST MARCH

2010 As restated	2011 As restated			Notes	2012	
£ ' 000	£ ' 000	£ ' 000			£ ' 000	£ ' 000
266,164	188,690		Property, Plant & Equipment	9		
56,766	55,837		Council dwellings		217,393	
27,682	26,946		Other land and buildings		80,284	
3,183	3,035		Infrastructure assets		26,296	
402	3,831		Vehicles, plant and equipment		2,522	
16,059	27,084		Community assets		1,055	
			Assets under construction		13,225	
370,256		305,423				340,775
10,641		10,641	Heritage Assets			10,690
69,631		69,338	Investment property	9		69,526
43		43	Intangible assets	9		96
450,571		385,445	Sub-total			421,087
729		4,018	Long-Term Debtors	12		5,653
451,300		389,463	TOTAL LONG-TERM ASSETS			426,740
			CURRENT ASSETS			
9,929	18,568		Short-Term Investments	11.5	6,250	
93	110		Inventories	14	180	
17,511	12,675		Short-Term Debtors	13	13,095	
-2,030	-2,065		Less : Provision for Bad Debts	13.1	-2,102	
704	568		Payments in Advance		2,676	
255	0		Assets held for sale	16	0	
7,189	2,010		Cash and Cash Equivalents	15	7,445	
33,651		31,866				27,544
484,951		421,329	TOTAL ASSETS			454,284
			CURRENT LIABILITIES			
10,981	8,833		Creditors	17	11,121	
756	1,104		Deposits & receipts in advance		2,187	
7	68		Short-term borrowing	11.1	4,569	
1,250	2,667		Bank overdraft	15	4,232	
-12,994		-12,672				-22,109
471,957		408,657	TOTAL ASSETS LESS CURRENT LIABILITIES			432,175
			LONG-TERM LIABILITIES			
637	424		Long-term creditors		212	
25,688	39,736		Long-term borrowing	11.4	132,114	
2,747	316		Capital grants receipts in advance	22	303	
89,246	35,926		Liability related to defined benefit pension scheme	30	54,533	
-118,318		-76,402				-187,162
353,639		332,254	NET ASSETS			245,013
			USABLE RESERVES	18		£ ' 000
2,509	3,500		General Fund		3,618	
2,326	1,594		Housing Revenue Account		1,826	
11,130	10,323		Earmarked reserves	7	9,881	
188	188		Major repairs reserve		0	
7,830	4,804		Capital receipts reserve		896	
1,596	2,262		Capital grants unapplied		2,502	
25,579		22,671				18,723
			UNUSABLE RESERVES			
28,799	15,002		Revaluation reserve	19.1	51,939	
390,111	331,894		Capital adjustment account	19.3	230,183	
-1,488	-1,294		Financial instruments adjustment a/c	19.2	-1,151	
-89,246	-35,926		Pensions reserve	19.4	-54,533	
47	30		Deferred capital receipts	19.5	22	
42	4		Collection fund adjustment account	19.6	-55	
-205	-127		Short-term accumulating absences a/c	19.7	-115	
328,060		309,583				226,290
353,639		332,254	TOTAL RESERVES			245,013

The purpose of the Balance Sheet is set out in the explanatory foreword, paragraph 8.

CASH FLOW STATEMENT

The Cash Flow Statement shows the council's changes in cash and cash equivalents during the reporting period. The statement shows how the council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the council are funded by council tax and grant income or from the users of services provided by the council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the council's future service delivery.

2010/11		2011/12	
£' 000		£' 000	£' 000
46,731	Net surplus (-) or deficit on the provision of services		104,608
	Adjust net surplus or deficit on the provision of services for non-cash movements.		
-2,785	a. Less : Depreciation of fixed assets (general fund)	-3,518	
-2,618	Less : Depreciation of HRA fixed assets	-2,905	
-224	b. Less : Impairment of fixed assets (general fund)	-9,779	
-67,086	Less : Impairment of HRA assets	-7,703	
627	Less : Impairment of financial assets (investments)	0	
-30	c. Less : Amortisation of intangible fixed assets.	-22	
-35	d. Less : Increase in bad debt provision	-392	
2,033	e. Add/less : Decrease/increase in revenue creditors	-2,184	
212	e. Add/less : Decrease/increase in long-term creditors	212	
-348	Add/less : Decrease/increase in deposits	-1,083	
	Items on an accruals basis (assets)		
-4,836	f. Add/less : Increase/decrease in debtors	-1,382	
-136	Add/less : Increase/decrease in payments in advance	2,108	
17	g. Add/less : Increase/decrease in inventories (stocks)	70	
	h. Pension liability		
9,863	- Net charges made for retirement benefits in accordance with FRS17.	-2,457	
5,102	- Employer's contributions payable to the Kent Pension Fund & retirement benefits payable direct to pensioners.	3,627	
-1,907	i. Carrying amount of non-current assets sold	-696	
	j. Other non-cash items charged to the net surplus or deficit on the provision of services.		
-433	- Difference between amounts debited/credited to the I&E account and amounts payable/receivable re soft loans and premiums on the early repayment of debt.	143	
-3,196	- Movements in the value of investment properties	537	
114	- Increase/decrease in accrual on investments	-79	
-133	- Increase/decrease in def'd premiums less discounts	-97	
-148	- Decrease/increase in accrual on borrowing	-118	
746	- Accrual of capital grants & capital income	-1,487	
7,375	- Capital grants & capital income applied	8,884	
57	- S106 grants received & applied (part of capital grants received in advance)	12	
-57,769			-18,309
	Adjust for items included in the net surplus or deficit on the provision of services that are investing activities		
2,170	Proceeds from the sale of property, plant and equipment.	1,369	
	Net increase / decrease in other liquid resources		
-8,679	- Council tax receipts paid to major preceptors less receipts	-8,945	
887	- NDR receipts under / over paid to the government	4,087	
-5,622			-3,489
-16,660	Net flows from Operating Activities (c/f)		82,810

CASH FLOW STATEMENT (con)

2010/11 As restated		2011/12	
£' 000		£' 000	£' 000
-16,660	Net flows from Operating Activities (b/f)		82,810
	CAPITAL ACTIVITIES		
	CASH OUTFLOWS		
25,588	Purchase of property, plant and equipment, investment property and intangible assets.	22,874	
7,898	Purchase of investments	0	
4,000	Other investment payments - Soft Loans	1,757	
37,486		24,631	
	CASH INFLOWS		
-2,169	Proceeds from sale of property, plant & equipment investment property and intangible assets.	-1,360	
-5,749	Capital grants received	-5,595	
0	Proceeds from short-term and long-term investments	-12,239	
-144	Other receipts from investing activities	-177	
-8,062	(Principal repayments of Soft Loans etc)		
-8,062		-19,371	
29,424	INVESTING ACTIVITIES NET CASH FLOW		5,260
12,764	NET CASH INFLOW/OUTFLOW BEFORE FINANCING		88,070
	FINANCING ACTIVITIES		
	CASH INFLOWS		
-13,900	Cash receipts of long-term borrowing	-92,259	
-61	Cash receipts of short-term borrowing	-4,569	
-887	Other receipts from financing activities		
-887	- NDR receipts under / over paid to the government	-3,836	
-14,848			-100,664
	CASH OUTFLOWS		
0	Repayments of long-term borrowing	0	
0	Repayments of short-term borrowing	67	
8,679	Other payments re financing activities		
8,679	- Council tax receipts paid to major preceptors less receipts	8,655	
8,679			8,722
-6,169	FINANCING NET CASH FLOW		-91,942
6,595	Net Increase (-) / Decrease in Cash Equivalents		-3,872
-5,936	Cash and cash equivalents at 1st April (excl.accruals)		659
659	Cash and cash equivalents at 31st March (excl.accruals)		-3,213

CASH AND CASH EQUIVALENTS

Cash is defined as cash in hand and deposits repayable on demand, less overdrafts. Cash equivalents are defined as money market funds and deposits maturing within three months having originally been placed for three months or less.

Balance 1.4.11	Balance (excl.accruals)	Balance 31.3.12	Movement in the year
£' 000		£' 000	£' 000
-1,613	Bank overnight deposits	-7,176	-5,563
-395	Cash in hand	-269	126
0	Money market funds	0	0
2,667	Bank overdraft	4,232	1,565
659		-3,213	-3,872

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES

1.1 GENERAL PRINCIPLES

The accounting convention adopted is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. 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 2011/12”, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This is recognised by statute [The Accounts and Audit Regulations 2011 and by sections 41 and 42 of the Local Government and Housing Act 1989] as representing proper accounting practices. This includes compliance with the Service Reporting Code of Practice 2010/11 (SeRCOP) supported by International Financial Reporting Standards (IFRS).

1.2 PROPERTY, PLANT and EQUIPMENT

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

1.2.1 Recognition and accruals

All expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the council and the cost of the item can be measured reliably.

1.2.2 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 and have been valued on the following bases:

- land, operational properties and other operational assets are included in the balance sheet at fair value, determined as the amount that would be paid for the asset in its existing use.
- council dwellings are included at fair value, determined using the basis of existing use value but discounted to allow for the “Right to Buy” valuations.
- infrastructure assets and community assets and assets under construction 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.

Where there is no market-based evidence of fair value because of the specialist nature of the asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

1.2.3 Revaluations

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service.

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.

1.2.4 Impairment

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

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

1.2.5 Disposals (and Capital Receipts)

When an asset is disposed of, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

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

1.2.6 Depreciation

Depreciation is provided for Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e freehold land and certain Community and Heritage Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated 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.

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

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

1.2.7 Heritage Assets

The council owns a large number of heritage assets which have either been donated to the council or purchased, or the council has inherited from other public bodies. The assets fall into two basic categories: land and buildings and museum contents and artefacts plus various items of public art and sculpture on display around the district. Full details of Heritage Assets are set out in note 31 on p.52.

Heritage Assets are recognised and measured in accordance with the council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets where the council does not hold information on cost or value and again this is set out in note 31.

1.3 INVESTMENT PROPERTY

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated, but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

1.4 INTANGIBLE FIXED ASSETS

Expenditure on assets that do not have physical substance, but are controlled by the council as a result of past events (e.g. software licences) is capitalised when it is expected to bring benefits to the council for more than one financial year.

Intangible assets are measured at cost as there is no active market against which to determine an alternative value. 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 therefore included in the balance sheet at historical costs, net of the amount written-down to revenue.

1.5 GOVERNMENT GRANTS AND CONTRIBUTIONS

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

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

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

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

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

1.6 CHARGES TO REVENUE FOR FIXED ASSETS

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

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

The council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual provision from revenue (known as the "minimum revenue provision") towards the reduction in its overall borrowing requirement. (This is equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the minimum revenue provision

in the Movement in Reserves Statement. The difference between the two is credited or debited to the Capital Adjustment Account.

1.7 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 in the Comprehensive Income and Expenditure Statement in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged, so there is no impact on the level of council tax.

1.8 FINANCIAL LIABILITIES (Borrowings)

1.8.1 Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For 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 Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

For the disclosure note regarding fair value (note 11.3), 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.

1.8.2 Repurchase of Borrowing

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 loans, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate. Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The difference between the amounts charged to the Comprehensive Income and Expenditure Statement and the net charge required against the General Fund Balance, is a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

1.9 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.

1.9.1 Loans and receivables

Loans and receivables are initially measured at fair value and subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line

in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the 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 Comprehensive Income and Expenditure Statement 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 11.4 and 11.5 to the core financial statements.

1.9.2 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 Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the loan, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 Movement in Reserves Statement.

1.9.3 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 Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

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.

1.10 LEASES

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

1.10.1 The Authority as Lessee - 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 33 to the core financial statements.

1.10.2 The Authority as Lessee - Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property or equipment. Charges are made on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

1.10.3 The Authority as Lessor – Operating Leases

Where the council grants an operating lease over a property or an item of equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

1.11 CURRENT ASSETS AND LIABILITIES

1.11.1 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.

1.11.2 Inventories (Stocks)

Inventories are included in the Balance Sheet at actual cost or net realisable value if lower.

1.11.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

1.12 EMPLOYEE BENEFITS

1.12.1 Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick-leave, and are recognised as an expense for services in the year in which employees render service to the council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

1.12.2 Termination Benefits

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

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

1.13 POST EMPLOYMENT BENEFITS (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.

1.13 PENSION COSTS (continued)

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

- i) The liabilities of the Kent pension fund attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, 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 Comprehensive Income and Expenditure Statement to the 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 Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement 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 the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- 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 the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- v) Gains or 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 or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- 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 Pensions Reserve.
- vii) Contributions paid to the Kent pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities, not accounted for as an expense.

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

The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

1.14 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 7 to the financial statements. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in the Comprehensive Income and Expenditure Statement. An appropriation is made from the reserve back to the General Fund Balance in the Movement in Reserves Statement so that there is no impact on council tax.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits. These do not represent usable resources for the council. The purpose of each of these reserves is set out in the notes to the accounts.

1.15 OVERHEADS and SUPPORT SERVICES (CENTRAL DEPARTMENTS' EXPENSES)

The 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:

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

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 and impairment losses chargeable on Assets Held for Sale.

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

1.16 PRIOR PERIOD ADJUSTMENTS AND CHANGES IN ACCOUNTING POLICIES

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, ie in the current and future years affected by the change and do not give rise to a prior period adjustment.

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

1.17 EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period, when the Statement of Accounts is adjusted to reflect such events.
- those that are indicative of conditions that arose after the reporting period, when the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.18 CONTINGENT LIABILITIES

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

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

1.19 VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs, and VAT paid is recoverable from them. VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue and Customs.

1.20 EXCEPTIONAL ITEMS

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

1.21 INTERESTS IN COMPANIES AND OTHER ENTITIES

Where the council has a material interest in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities, group accounts will be prepared.

In the council's own single entity accounts, any interest in companies and other entities will be recorded as financial assets at cost, less any provision for losses.

2 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

For 2011/12 there are no accounting policy changes that need to be reported.

3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out above, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- The council has decided not to prepare group statements in respect of the East Kent ALMO on the grounds of materiality.
The ALMO's accounts include a small profit on transactions of £439,000, plus a more significant loss for their pension deficit of £5,066,000. The council has decided that both these elements are not material for our accounts for the following reasons:
The council's share of the ALMO's profit on transactions (approximately 25% of £439,000) is not material, so its inclusion in the financial statements would have no material impact.
The council does not have a constructive obligation for a share of the pension fund liability, so this liability is being recognised as a contingent liability in the accounts (note 34 on page 55). Consequently, in our opinion, under IAS 37 and the equity method of consolidation, our share of this pension fund loss and the resultant liability would not be consolidated in any group accounts prepared. The liability would instead be disclosed as a contingent liability in any group accounts prepared. Full details are provided on page 66. Details of the related party transactions are provided in note 27 on page 48.
- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

- The council has money deposited with the Heritable Bank which is in administration. Full details are provided in note 11.

4 **ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The only item in the council's balance sheet at 31st March 2012 for which there is a risk of material adjustment in the forthcoming financial year is the Pension's Liability:

Uncertainties	Effect if actual results differ from assumptions
<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of actuaries is engaged to provide the council (and other Kent districts) with expert advice about the assumptions to be applied.</p>	<p>The effects on the net pension's liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £2,977k. However, the assumptions interact in complex ways. During 2011/12, the council's actuaries advised that the net pension's liability had increased by £54k as a result of experience and increased by £16,117k attributable to updating of the assumptions.</p>

5. **AUTHORISATION FOR ISSUE OF STATEMENT OF ACCOUNTS**

The Statement of Accounts was authorised for issue on 29 June 2012 by the Director of Resources. Events taking place after this date are not reflected in the financial statements or notes.

6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments (reported in total in the Movements in Reserve Statement) that are made to the total comprehensive income and expenditure recognised by the council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the council to meet future capital and revenue expenditure.

2011/12	Usable Reserves						Movements
	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Major Repair Reserve	Capital Receipts Reserve	Capital Grants Unapplied	In Unusable Reserves
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Adjustments primarily involving the Capital Adjustment Account							
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement							
Depreciation/amortisation (excl HRA depn)	3,540						(3,540)
HRA Depreciation/amortisation			2,905				(2,905)
The difference of depreciation charged to HRA services over the Major Repairs Allowance element of housing			(833)	833			0
Impairment/revaluation losses (charged to I&E)	9,779		7,703				(17,482)
Capital grant and contributions applied	(8,013)		(325)			(546)	8,884
Revenue Expenditure Funded from Capital under Statute	347						(347)
Movement in market value of investment property	(131)		(406)				537
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	143		553				(696)
Capital grants and contributions unapplied	(786)		0			786	0
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(311) re S106		(1,058)		1,369		0
Repayments of Soft Loans & Hsg Act Advances					160		(160)
Use of capital receipts reserve to finance capital expenditure					(4,645)		4,645
HRA settlement determination payment-reversal to CAA			96,828				(96,828)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement							
Statutory Provision for the repayment of debt - (Minimum revenue provision)	(1,231)						1,231
HRA capital receipts to housing central pool	800		0		(800)		0
Revenue contribution to finance capital	(245)		(572)				817
Reversal of Major Repairs Allowance credited to the HRA			(2,905)	2,905			0
Use of the Major Repairs Reserve to finance new capital expenditure				(3,926)			3,926
Adjustment between CAA and Revaluation Reserve							207
							(101,711)
Adjustments involving the Revaluation Reserve							
Adjustment between CAA and Revaluation Reserve							(207)
Adjustments involving the Financial Instruments Adjustment Account							
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement							
Impairment of investments (charged to I&E)	0						0
Differences between statutory debits/credits and amounts recognised as income & expenditure in relation to financial instruments e.g. Soft loans	(56)		(87)				143
							143
Adjustments involving the Pensions Reserve							
Reversal of items relating to retirement benefits debited or credited to I&E	2,285		172				(2,457)
Employers contributions to pension schemes	(3,391)		(236)				3,627
							1,170
Adjustments primarily involving Deferred Capital Receipts							
Repayments of HRA Mortgages (to Def'd Cap Rects)					8		(8)
Adjustments involving Collection Fund adjustment account							
Amount by which council tax income adjustment included in I&E is different from the amount taken to the General Fund in accordance with regulation	59						(59)
Adjustments involving Short term compensated absences							
Amount by which officer remuneration charged to the I&E on an accruals basis is different from remuneration chargeable in the year in accordance with statute	(12)		0				12
TOTAL ADJUSTMENTS 2011/12	2,777	0	101,739	(188)	(3,908)	240	(100,660)

6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS (con)

2010/11	-----Usable Reserves----->						Movements
	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Major Repair Reserve	Capital Receipts Reserve	Capital Grants Unapplied	in Unusable Reserves
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Adjustments primarily involving the Capital Adjustment Account							
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement							
Depreciation/amortisation (excl HRA depn)	2,815						(2,815)
HRA Depreciation/amortisation			2,618				(2,618)
The difference of depreciation charged to HRA services over the Major Repairs Allowance element of housing			(1,260)	1,260			0
Impairment/revaluation losses (charged to I&E)	224		67,086				(67,310)
Capital grant and contributions applied	(7,375)						7,375
Revenue Expenditure Funded from Capital under Statute	525						(525)
Movement in market value of investment property	3,196						(3,196)
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	1719		188				(1,907)
Capital grant and contributions unapplied credited to I&E	(593) re S106		(73)			666	0
Use of capital grants and contributions to finance capital expenditure						0	0
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	(1,760) re S106		(410)		2,170		0
Repayments of Soft Loans & Hsg Act Advances					127		(127)
Use of capital receipts reserve to finance capital expenditure					(5,039)		5,039
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement							
Statutory Provision for the repayment of debt - (Minimum revenue provision)	(1,122)						1,122
HRA capital receipts to housing central pool	301		0		(301)		0
Revenue contribution to finance capital	(224)		(1,855)				2,079
Reversal of Major Repairs Allowance credited to the HRA			(2,618)	2,618			0
Use of the Major Repairs Reserve to finance new capital expenditure				(3,878)			3,878
Adjustment between CAA and Reval Reserve							788
							(58,217)
Adjustments involving the Revaluation Reserve							
Adjustment between CAA and Reval Reserve							(788)
Adjustments involving the Financial Instruments Adjustment Account							
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement							
Impairment of investments (charged to I&E)	(627)						627
Differences between statutory debits/credits and amounts recognised as income & expenditure in relation to financial instruments e.g. Soft loans	557		(124)				(433)
							194
Adjustments involving the Pensions Reserve							
Reversal of items relating to retirement benefits debited or credited to I&E	(10,433)		570				9,863
Employers contributions to pension schemes	(4,652)		(450)				5,102
							14,965
Adjustments primarily involving Deferred Capital Receipts							
Repayments of HRA Mortgages (to Def'd Cap Rects)					17		(17)
Adjustments involving Collection Fund adjustment account							
Amount by which council tax income adjustment included in I&E is different from the amount taken to the General Fund in accordance with regulation	38						(38)
Adjustments involving Short term compensated absences							
Amount by which officer remuneration charged to the I&E on an accruals basis is different from remuneration chargeable in the year in accordance with statute	-78		0				78
TOTAL ADJUSTMENTS 2010/11	(17,489)	0	63,672	0	(3,026)	666	(43,823)

7. TRANSFERS TO / FROM EARMARKED RESERVES

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

Balance at 1 April As restated	Name of Reserve GENERAL FUND	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	
50	LABGI reserve	(a)					50	0	
178	Early retirement	(b)		0			0	178	
272	Computer/equipment	(c)		146				58	
1,300	MMI run-off reserve	(d)		282				297	
110	CCTV reserve	(e)		35				67	
282	Buildings maintenance	(f)		47				329	
288	Insurance reserve	(g)	3		36		45	282	
111	Office equipment	(h)	0	33				11	
267	Liability insurance	(i)	3				20	21	
83	Regeneration	(j)		35			0	0	
559	Restructure reserve	(k)		200		-280	227	812	
194	Open spaces maintenance	(l)					18	176	
79	Benefits grant income	(m)					79	0	
119	Benefits overpayments	(n)		0			119	0	
1,613	VAT Recovered reserve	(o)		174			77	0	
260	Performance reward grt re	(p)		0		234	0	26	
654	Kingsmead interest	(q)					300	354	
116	CPO Lodgements resv	(r)					116	0	
211	External interest	(s)	3				129	85	
-290	Premature Debt Rept	(t)		123				0	
134	Emergencies reserve	(u)		22				156	
358	Whit.Harbour gen.resv	(v)		210		100	16	32	
400	Planning delivery grant	(x)		0			35	0	
308	Local plan inquiry	(y)	0	0			17	291	
31	Car park reserve	(z)		50			0	49	
1,890	Other Gen Fund reserves		0	501	60	-54	523	42	
9,577	TOTAL GF RESERVES		9	1,858	96	0	1,771	577	
	Net movement in year							385	
	HRA RESERVES (Excluding Major Repairs Reserve)								
624	Subsidence reserve	(w)		50				86	
122	Other HRA reserves		0	0	30	0	0	51	
746	TOTAL HRA RESERVES		0	50	30	0	0	137	
	Net movement in year							57	
10,323	TOTAL RESERVES		9	1,908	126	0	1,771	714	
	Net movement in year							442	

Notes:

- The Local Authority Business Growth Incentive (LABGI) reserve held 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 has been credited to revenue over the subsequent three years, ending in 2011/12.
- 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 various management restructures.
- The Computer/equipment reserve was created in 1995/96 to finance computers and equipment which need replacing.
- The MMI run off reserve was created in 2011/12 by a transfer from the concessionary fares reserve (which was no longer needed, following settlement of the appeal) to cover the potential liabilities arising from insurance claims with the former Municipal Mutual Insurance Company which went into liquidation a few years ago. A further transfer was made in 2011/12 from the general fund underspend to meet the potential liability.

7. TRANSFERS TO / FROM EARMARKED RESERVES (con)

- (e) This reserve is used to finance CCTV equipment.
- (f) The Buildings maintenance reserve is used to finance the annual repair budget for all council buildings.
- (g) 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 £200,000 is held to cover professional indemnity (which could involve major sums).
- (h) This reserve funds the rolling programme of office equipment renewals.
- (i) 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.
- (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 emergencies reserve is to be used in the case of any civil emergencies.
- (v) The Whitstable Harbour general reserve holds any surpluses from the ring-fenced account to spend on the Harbour in future years.
- (w) 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.
- (x) This reserve holds the balance of planning delivery grant, not used in the year of receipt, for future projects and ongoing commitments.
- (y) The local plan enquiry reserve evens out the impact of costs which arise on a periodic basis for the local plan enquiry.
- (z) This reserve was created in the 2006/07 budget strategy to finance work on the council's car parks.

8. GENERAL GOVERNMENT GRANTS

Only a single line for general government grants is shown in the Comprehensive Income and Expenditure Statement, so full details have to be set out in this separate note.

2010/11		2011/12
-1,678	Revenue support grant	-2,478
-11,553	Distribution from non-domestic rate pool	-8,017
0	LABGI grant	0
-79	Area based grant	0
0	Housing & planning delivery grant	-674
-13,310	Total of General Government Grants	-11,169

9. PROPERTY PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND INTANGIBLE ASSETS

Following the introduction of capital accounting, fixed assets are valued using the basis set out in note 9.3 below, any differences being credited or debited to the Revaluation Reserve. Infrastructure assets and community assets are included in the balance sheet at historical cost, net of depreciation.

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

Gross book value at 1 April As restated	2011 / 12	Additions	Disposals	Revaluations included in Reval Reserve	Impairments included in deficit on services	Reclassifications	Gross book value at 31 March
£' 000		£' 000	£' 000	£' 000	£' 000	£' 000	£' 000
191,269	Property, Plant & Equipment						
	Council dwellings	8,009	-553	29,221	-7,686	0	220,260
59,419	Other land & buildings	2,173	-138	4,949	-6,068	22,077	82,412
9,928	Vehicles, plant, furniture & equipment	523	-416	0	6	0	10,041
40,648	Infrastructure	319	-33	0	-66	0	40,868
3,845	Community assets	453	0	0	-3,346	118	1,070
27,084	Under construction	10,980	0	-2,724	-322	-21,793	13,225
332,193	TOTAL	22,457	-1,140	31,446	-17,482	402	367,876
					Change in valuation		
69,338	<u>Investment properties</u>	53	0		537	-402	69,526
10,641	<u>Heritage assets</u>	0	0	49	0	0	10,690
	<u>Intangible assets</u>						
367	Software licences	75	0	0	0	0	442
412,539	TOTAL	22,585	-1,140	31,495	-16,945	0	448,534

Net book value at 1 April As restated	2011 / 12	Depreciation					Net book value at 31 March
		Accum. 1 April	Charge for year	Written out on disposals	Written out to reval'n. reserve	Accum. 31 March	
£' 000		£' 000	£' 000	£' 000	£' 000	£' 000	£' 000
	Property, Plant & Equipment						
188,690	Council dwellings	2,579	2,867	0	-2,579	2,867	217,393
55,837	Other land & buildings	3,582	1,615	0	-3,069	2,128	80,284
3,035	Vehicles, plant, furniture & equipment	6,893	1,037	-411	0	7,519	2,522
26,946	Infrastructure	13,702	903	-33	0	14,572	26,296
3,831	Community assets	14	1	0	0	15	1,055
27,084	Under construction	0	0	0	0	0	13,225
305,423	TOTAL	26,770	6,423	-444	-5,648	27,101	340,775
69,338	<u>Investment properties</u>	0	0	0	0	0	69,526
10,641	<u>Heritage assets</u>	0	0	0	0	0	10,690
	<u>Intangible assets</u>						
43	Software licences	324	22	0	0	346	96
385,445	TOTAL	27,094	6,445	-444	-5,648	27,447	421,087

9. PROPERTY PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND INTANGIBLE ASSETS

Comparative movements in 2010/11 - as restated at 1st April 2010 for the change in accounting policy re the valuation of Heritage Assets (an increase of £9,233k)

Gross book value at 1 April As restated	2010 / 11	Additions	Disposals	Revaluations included in Reval Reserve	Impairments included in deficit on services	Reclassifications	Gross book value at 31 March As restated
£' 000		£' 000	£' 000	£' 000	£' 000	£' 000	£' 000
268,853	Property, Plant & Equipment	6,218	-188	-16,528	-67,086	0	191,269
59,447	Council dwellings	292	-938	815	-185	-12	59,419
9,385	Other land & buildings	879	-309	0	-27	0	9,928
40,489	Vehicles, plant, furniture & equipment	170	0	0	-11	0	40,648
415	Infrastructure	0	0	7	173	3,250	3,845
16,059	Community assets	14,437	0	0	-174	-3,238	27,084
	Under construction						
394,648	TOTAL	21,996	-1,435	-15,706	-67,310	0	332,193
69,631	Investment properties	3,447	-544	0	-3,196	0	69,338
10,641	Heritage assets	0	0	0	0	0	10,641
351	Intangible assets	30	-14	0	0	0	367
	Software licences						
475,271	TOTAL	25,473	-1,993	-15,706	-70,506	0	412,539

Net book value at 1 April As restated	2010 / 11	Depreciation					Net book value at 31 March As restated
		Accum. 1 April	Charge for year	Written out on disposals	Written out to reval'n. reserve	Accum. 31 March	
£' 000		£' 000	£' 000	£' 000	£' 000	£' 000	£' 000
266,164	Property, Plant & Equipment	2,689	2,579	0	-2,689	2,579	188,690
56,766	Council dwellings	2,681	928	-18	-9	3,582	55,837
3,183	Other land & buildings	6,202	1,000	-309	0	6,893	3,035
27,682	Vehicles, plant, furniture & equipment	12,807	895	0	0	13,702	26,946
402	Infrastructure	13	1	0	0	14	3,831
16,059	Community assets	0	0	0	0	0	27,084
	Under construction						
370,256	TOTAL	24,392	5,403	-327	-2,698	26,770	305,423
69,631	Investment properties	0	0	0	0	0	69,338
10,641	Heritage assets	0	0	0	0	0	10,641
43	Intangible assets	308	30	-14	0	324	43
	Software licences						
450,571	TOTAL	24,700	5,433	-341	-2,698	27,094	385,445

9.1 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 month, 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.

9. PROPERTY PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND INTANGIBLE ASSETS

A revised depreciation charge using component accounting was implemented for the HRA in 2010/11 as the amount involved was £667k. It has been implemented in 2011/12 for the General Fund for major properties only.

9.2. CAPITAL COMMITMENTS

The following significant capital contracts have been entered into by the council by 31 March 2012 which involve commitments in 2012/13 and beyond.

Scheme	Estimate	Estimate
	2012/13	2013/14
	£' 000	£' 000
Beaney development	1,708	0

9.3. REVALUATIONS

The Council carries out a rolling programme of revaluations that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Investment Properties are revalued every year. All valuations were carried out internally.

	Date of last valuation	Basis of valuation	Internal Valuer
Operational assets-			
Council dwellings	March 2012	A	Martin Bovington , FRICS
Other land & buildings	April 07 - March 2012	B	Martin Bovington , FRICS
Investment properties	March 2012	C	Martin Bovington , FRICS

Basis 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 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

9.4. INTANGIBLE ASSETS

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The council's intangible assets include only software licences.

Intangible assets (i.e. software licences) are amortised (i.e. written-down) to revenue on a straight-line basis over 5 years, the expected useful life of the software.

The carrying value and movements during the year of Intangible assets are shown in the table at the beginning of note 9.

9.5. INVESTMENT PROPERTIES

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

2010/11		2011/12
£ ' 000		£ ' 000
3,956	Rental income from investment property	4,172
-577	Direct operating expenses incurred on investment property	-537
3,379	Net gain	3,635

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

10. CAPITAL EXPENDITURE and CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the council that has yet to be financed. (This effectively means that it has been covered by borrowing)

2010/11	Capital Expenditure and Financing	2011/12	
£ ' 000		£ ' 000	£ ' 000
32,964	Opening Capital Financing Requirement		45,842
	Capital Expenditure in year:		
21,996	Property, plant and equipment (note 9 - additions)	22,457	
3,447	Investment properties (note 9 - additions)	53	
30	Intangible assets (note 9 - additions)	75	
2,002	Revenue expenditure funded from capital under statute (see note 10.1 below)	1,424	
4,000	Long term debtors (note 12 - advances)	1,757	
31,475			25,766
0	Housing financing settlement		96,828
	Sources of Finance		
-5,038	Capital receipts	-4,645	
-6,480	Government grants and other contributions (see note below 10.1)	-9,961	
-5,957	Revenue & reserves	-4,743	
-1,122	Revenue provision for repayment of loans (MRP)	-1,231	
-18,597			-20,580
45,842	Closing Capital Financing Requirement		147,856
	Explanation of movements in year		
0	Increase in underlying need to borrow (supported by government financial assistance)		0
12,878	Increase in underlying need to borrow (unsupported by government financial assistance)		102,014
12,878	Increase in Capital Financing Requirement		102,014

10.1 REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

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 2010/11	Item of expenditure	Gross Exp'd	Govt. Grants	Net Exp'd 2011/12
£' 000		£' 000	£' 000	£' 000
268	Disabled facilities and improvement grants	720	-535	185
29	Historic building grants	18	0	18
228	Other including parish council grants	686	-542	144
525	TOTAL	1,424	-1,077	347

The financing of this expenditure was: capital receipts £347k, grants £1,077k, revenue and reserves £0k. Adding the £1,077k to the £8,884k non-refcus grants (detailed in note 22), reconciles to the total capital grants applied to finance capital expenditure £9,961k (see table above).

11. FINANCIAL INSTRUMENTS

11.1 FINANCIAL INSTRUMENTS BALANCE

The following categories of financial instrument are carried in the Balance Sheet:

31 March 2011			31 March 2012	
Long-Term	Current		Long-Term	Current
£' 000	£' 000		£' 000	£' 000
39,736	68	Borrowings		
		Financial liabilities at amortised cost (including the £2,000k soft loan received from KCC)	132,114	4,569
0	0	Financial liabilities at fair value through profit and loss	0	0
39,736	68	Total Borrowings	132,114	4,569
£' 000	£' 000	Creditors	£' 000	£' 000
0	8,417	Financial liabilities at amortised cost (i.e.excluding statutory debts such as council tax)	0	7,695
0	8,417	Total Creditors	0	7,695
£' 000	£' 000	Investments	£' 000	£' 000
0	18,568	Loans and receivables	0	6,250
0	0	Available-for-sale financial assets	0	0
0	18,568	Total Investments	0	6,250
£' 000	£' 000	Other Current Assets	£' 000	£' 000
0	9,840	Loans and Receivables (i.e.excluding statutory debts such as council tax)	0	9,955
0	568	Payments in advance	0	2,358
0	2,010	Cash and Cash Equivalents	0	7,445
0	12,418	Total Other Current Assets	0	19,758
£' 000	£' 000	Soft loans	£' 000	£' 000
3,972	0	Soft loans provided - see table below	5,619	0

The Council has made a number of loans to voluntary organisations at less than market rates (soft loans). The details of these are:

Borrower	Original Loan	Balance at 1.4.2011	Advances in 2011/12	Repayments in 2011/12	Balance at 31.3.2012	Fair value at 31.3.2012
	£' 000	£' 000	£' 000	£' 000	£' 000	£' 000
Whitstable Town FC	17	2		1	1	1
Herne Bay Bowling Club	44	20		3	17	15
Canterbury Bowling Club	100	50		5	45	37
Whitstable Bowling Club	30	3		2	1	1
Active Life	600	537		50	487	397
Northgate Ward Dev. Group	20	5		3	2	2
Polo Farm	135	83		9	74	63
Horsebridge	50	40		5	35	30
Thanington Resource Centre	42	42		4	38	32
Kent County Cricket Club	4,000	3,968	1,500	67	5,401	4,795
Almshouse Charity of Wynn Ellis	220	0	220	5	215	212
Canterbury Rugby Club	30	0	30	2	28	27
Horsebridge	7	0	7		7	7
	5,295	4,750	1,757	156	6,351	5,619

(see also note 12)

When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a marginally 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 interest receivable for the financial year - the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

NOTES TO THE FINANCIAL STATEMENTS

11.2 FINANCIAL INSTRUMENTS GAINS / LOSSES

The gains and losses recognised in the Comprehensive Income and Expenditure Accounts 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	
Interest payable and similar charges	£' 000	£' 000	£' 000	£' 000
Interest payable	1,343	0	0	
Impairment of financial assets (investments)	0	25	0	
Losses on derecognition	0	0	0	
Interest payable and similar charges	1,343	25	0	1,368
Interest and investment income				
Interest income (received)	0	-305	0	
Interest income (impaired)	0	-199	0	
Gains on derecognition	0	0	0	
Interest and investment income	0	-504	0	-504
Net gain (-) / loss for the year	1,343	-479	0	864

11.3 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 2012 were between 1.28% and 4.42%, depending on the maturity date of the loan.
- 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 2011			31 March 2012	
Carrying amount	Fair value		Carrying amount	Fair value
£' 000	£' 000	Long-Term Borrowing	£' 000	£' 000
37,731	35,734	Financial liabilities - PWLB Loans	130,110	125,935
2,005	1,681	Financial liabilities - Other bonds and mortgages	2,004	1,887
		Short-Term Borrowing		
68	68	Financial liabilities - Temporary Loans	4,569	4,569

The fair value is lower than the carrying amount because 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, although 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 £2,049k 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 3.81% in 2011/12 compared to 9.22% in 2002/03).

11.3 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES CARRIED AT AMORTISED COST (con)

31 March 2011			31 March 2012	
Carrying amount	Fair value		Carrying amount	Fair value
£' 000	£' 000	Investments	£' 000	£' 000
18,568	18,593	Loans and receivables - Banks and Building Societies	6,250	6,306
0	0	Available-for-sale financial assets - Externally Managed	0	0
18,568	18,593		6,250	6,306

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, bank overnight deposits and some debtors and creditors as set out in the table (above) in note 11.1. The fair value of these is equivalent to the nominal value.

11.4 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) Re-financing risk - the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms
- iv) 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.
- v) Foreign exchange rate risk - the risk that investments denominated in foreign currencies may change in value due to movements in foreign exchange rates.

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 other Finance staff, under policies approved by the council in the annual treasury management strategy. The council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

11.4 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. The Treasury Management Strategy sets out the lending limits to any single counter party; these are based on the assessed risks and vary between £3 million and £10 million (as set out in the Executive report - 3 February 2011, which is available on the Council's website).

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 68% has now been returned and a further 20% is expected to be returned, and £2m invested with Glitnir, all of which has been returned as local authorities were considered to have priority status.

Liquidity risk

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

The council has ready access to borrowings from the money markets to cover any day to day cash flow needed (although this facility is rarely used), and the PWLB and money markets for access to longer term funds. The council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

All sums owing to the council (£5m) are due to be paid within one year.

Refinancing and Maturity 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 £75.0m of 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:

31 March 2011	Source of loan	Range of interest rates payable (%)	31 March 2012
£ ' 000			£ ' 000
37,731	Public Works Loan Board	1.86 - 10.50	130,110
2,005	Other bonds & mortgages	2 - 5.625	2,004
39,736	TOTAL : LONG-TERM BORROWING		132,114
£ ' 000	An analysis of loans by maturity is:		£ ' 000
71	Maturing in 1-2 years		10,723
13,341	Maturing in 2-5 years		19,819
2,478	Maturing in 5-10 years		26,534
23,846	Maturing in over 10 years		75,038
39,736	TOTAL : LONG-TERM BORROWING		132,114

11.4 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Market risk

Interest rate risk

The council is exposed to significant risks in terms of its exposure to interest rate movements on its investments, although much less on its borrowings. Movements in interest rates have a complex impact on the authority. For instance a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure Account. However changes in interest payable and receivable on variable rate borrowings and investments (if the council had any) would be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance.

Investments or borrowings at variable interest rates are potentially most affected by interest rate risk; this council does not have any such financial instruments, and have thus mitigated much of this risk.

General Fund Borrowing

£23.5m of the council's borrowing is fixed at periods in excess of 10 years and therefore the market rate risk is mainly confined to the £15m of borrowings maturing in the next five years. The council's investments are held at fixed rates and are due to mature within 1 year. The interest rate risk relates to the reinvestment of these deposits when they mature, if interest rates should fall even further and the refinancing of the shorter-date borrowings when they mature if rates should have risen by then.

The council obtained £291,000 interest on its investments in 2011/12 (£313,000 in 2010/11) - an average interest rate of 1.24% (1.11% in 2010/11). If the average rate had been 1% more (i.e. 2.24%) then the council would have received £234,000 more income.

Foreign Exchange risk in Relation to Icelandic Deposits

The Council has foreign exchange exposure resulting from an element of the settlement received from Glitnir Bank. This is being held in Icelandic kroner in an escrow account due to the current imposition of currency controls.

11.5 INVESTMENTS

Carrying amount at 31 March 2011	Investment type	Carrying amount				Fair Value at 31 March 2012
		Nominal Value	Accrued Interest	Impairment	Total 31 March 2012	
£ ' 000	<u>Internally Managed</u>	£ ' 000	£ ' 000	£ ' 000	£ ' 000	£ ' 000
1,395	Heritable Bank - fixed deposits	1,162	0	-352	810	810
2,039	Glitnir Bank - remaining deposit	384	0	0	384	384
15,134	Other Banks - fixed deposits	5,000	56		5,056	5,112
18,568	TOTALS	6,546	56	-352	6,250	6,306

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, £2m with the Glitnir Bank and £4m with the Heritable Bank, with varying maturity dates and interest rates.

The impairment of £352k (excluding interest) shown in the table above, relates to net investments of £1,162k with the Heritable Bank, a U.K. bank with an Icelandic parent bank. The level of impairment has been calculated using the methodology specified by CIPFA which shows the impairment of the original investment to be £322k. To this is added estimated interest after maturity, at the contracted rates shown below, of £699k which is fully impaired. These amounts have been further impaired by a discounted cashflow calculation to £1,051k (gross of interest).

The Glitnir Bank made a full repayment of the original investment towards the end of the financial year in a basket of currencies. Due to exchange controls currently operating in Iceland, the element of the distribution in Icelandic kroner has had to be placed in an escrow account in Iceland where it is earning interest of 3.4%. Any further impairment applicable to this deposit will be due to exchange rate fluctuations only.

Heritable Bank

Heritable Bank is a UK registered bank under Scottish law and was placed in administration on 7 October 2008.

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

Based on the latest information available, the council believes 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.

Creditor progress reports issued by the administrators, Ernst and Young, have indicated that the total return to creditors is projected to be 88p in the £. The council has already received a total of £2,838,299 (representing a dividend of 67.9%) from the bank during the financial years 2009/10, 2010/11 and 2011/12. The council has therefore decided to recognise an impairment based on it recovering a further 20p in the £. It is anticipated that payments will be made at regular intervals until a final sale of assets after the books have been run down during 2013. Therefore in calculating the impairment the council has assumed that a dividend of approx. 3.5% will be paid on the following dates: April, July and October 2012, and January 2013 with the balance being paid in April 2013.

11.5 INVESTMENTS (cont)

The details of the investments in the Heritable Bank 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	575	6.06%	406	539	169
9/01/08	Heritable Bank Ltd	08/01/09	293	5.56%	202	257	91
15/1/08	Heritable Bank Ltd	15/1/09	294	5.45%	202	255	92
	Total		1,162		810	1,051	352

Recoveries are expressed as a percentage of the council'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.

Following the decision of the Supreme Court in Iceland to endorse the decision of the Reykjavik district court to award local authorities priority creditor status, the administrators of the Glitnir Bank made a distribution to authorities in March 2012 representing 100% of the money owed. As expected, this was paid in a basket of currencies, which when converted into sterling, amounted to £1,669,976. Additionally, the element paid in Icelandic kroner was placed in an escrow account in Iceland.

Recoveries are expressed as a percentage of the council's claim in the administration, which 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. This was adjusted in 2009/10 reducing the impairment by £102,000 (adjusted for a rounding difference of £1,000) to take account of monies received in the year.

The gross impairment losses of £1,454,000 for 2010/11 and £1,051,000 for 2011/12 have been calculated in a similar fashion, resulting in an decrease of £403,000 from last year's impairment.

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

The council had taken advantage of the Capital Finance Regulations to defer the impact of the impairment on the General Fund, but these regulations no longer apply. Therefore the impairment of £472,000 (excluding interest) was transferred from the Financial Instruments Adjustment Account to the General Fund in 2010/11. As planned, this was offset by a transfer of equal value from the VAT windfall reserve which had been set aside for this purpose. This impairment was reduced by £120,000 (to £352,000) in 2011/12 and so an equivalent transfer back from the VAT reserve was made in 2011/12. There is an additional impairment of £199,000 in 2011/12 relating to interest which has been borne in full by the General Fund.

12. LONG-TERM DEBTORS

Balance at 1 April 2011	Category	Advances during year	Repaymt. during year	Write-Offs	Balance at 31 March 2012
£ ' 000		£ ' 000	£ ' 000	£ ' 000	£ ' 000
4,750	Soft Loans (Miscellaneous Loans)	1,757	-156	0	6,351
-778	- Actual amount outstanding	-19	65	0	-732
3,972	Soft Loans - Fair value	1,738	-91	0	5,619
30	Mortgages	0	-8	0	22
16	Housing Act Advances	0	-4	0	12
4,018	TOTAL	1,738	-103	0	5,653

The true balance for Soft Loans at 31 March 2012 of £6,351,000 has been reduced downwards by £732,000 (contra the Financial Instruments adjustment account) to a "fair value" of £5,619,000 using a discounted cash flow calculation, to reflect the fact that the repayments are interest free (except for the loan to Kent County Cricket Club and other advances in 2011/12).

13. SHORT-TERM DEBTORS

31 March 2011	Category	31 March 2012
£ ' 000		£ ' 000
2,612	Sundry debtors	2,663
5,675	Government departments	3,992
863	Other local authorities	3,168
322	Council taxpayers	342
751	Housing rents	686
0	Employee loans	0
2,452	Other	2,244
12,675	TOTAL	13,095

Note: Council taxpayers show only the council's share of arrears. NDR ratepayers are nil to reflect that all income is due to the government. The net debtor due from the government is shown under government departments. The figure due from D.W.P. re Housing Benefits has decreased from £2,053,000 to £541,000 and the net debtor re the NDR pool has decreased from £1,076,000 to nil, offset by an increase from the Heritage Lottery Fund re the Beaney Development and Whitstable Castle from £2,085,000 to £2,985,000. Other local authority debtors includes the debtor due from KCC for the Beaney development which has increased from nil to £760,000.

13.1 PROVISION FOR BAD DEBTS

31 March 2011	Category	31 March 2012
£ ' 000		£ ' 000
163	Council taxpayers	179
607	Housing	527
829	Benefits	908
466	PCN's and other provisions	488
2,065	TOTAL	2,102

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

14. INVENTORIES (STOCKS IN HAND)

31 March 2011	Category	31 March 2012
£ ' 000		£ ' 000
20	Tourist information centres	44
90	Other	136
110	TOTAL	180

15. CASH AND CASH EQUIVALENTS

Cash is defined as cash in hand and deposits repayable on demand, less overdrafts. Cash equivalents are defined as money market funds and deposits maturing within three months having originally been placed for three months or less. The balance of cash and cash equivalents is made up of the following elements:

31 March 2011	Balance (incl. accruals)	31 March 2012
£' 000		£' 000
-1,615	Bank overnight deposits	-7,177
-395	Cash in hand	-268
-2,010		-7,445
2,667	Bank overdraft	4,232
657		-3,213

16. ASSETS HELD FOR SALE

There was only one asset in this category and this was held in current assets.

31 March 2011		31 March 2012
£' 000	Balance outstanding at start of year	£' 000
255	- Eddington Nursery	0
-255	Asset sold	0
0	Balance outstanding at end of year	0

17. CREDITORS

31 March 2011 as restated	Category	31 March 2012
£ ' 000	Sundry creditors	£ ' 000
3,035	- Revenue Items	2,843
2,510	- Capital Items	2,141
991	Government departments	3,532
	Other local authorities	
1,046	- Revenue Items	1,214
17	- Capital Items	97
167	Council taxpayers	188
250	Housing rents	235
817	Other	871
8,833	TOTAL	11,121

Council taxpayers show only the council's share of prepayments. The government departments' figure includes the net creditor due to CLG of £2,678,000 re the NDR pool and prepayments by NDR ratepayers net of arrears and the bad debt provision. The equivalent figure last year was nil as the figure was a net debtor.

18. USABLE RESERVES

Movements in the council's usable reserves are detailed in the Movement in Reserves Statement and in note 6 to the financial statements.

19. UNUSABLE RESERVES

Reserve	Balance 1 April 2011 £ ' 000 As restated	Net Movement in Year £ ' 000	Balance 31 March 2012 £ ' 000	Purpose of Reserve	Further Detail of Movements
Revaluation Reserve	15,002	36,937	51,939	Store of gains on revaluation of fixed assets, not yet realised through sales.	19.1 below.
Capital Adjustment Account	331,894	-101,711	230,183	Store of capital resources set aside to meet past expenditure	19.3 below.
Financial Instruments Adjustment Account	-1,294	143	-1,151	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments	19.2 below.
Pensions Reserve	-35,926	-18,607	-54,533	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	19.4 below.
Deferred Capital Receipts	30	-8	22	Represents principal outstanding from mortgages.	19.5 below.
Collection Fund Adjustment Account	4	-59	-55	Resources available to meet future precept payments re City Council share only.	19.6 below.
Short-term accumulating absences a/c	-127	12	-115	Represents accrual of holiday entitlement c/f at year-end.	19.7 below.
Total	309,583	-83,293	226,290		

19.1 REVALUATION RESERVE

This reserve contains the gains made by the council arising from increases in the value of its Property, Plant and Equipment (and Intangible Assets) as a result of inflation or other factors. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

19.1 REVALUATION RESERVE (con)

The opening balance at 1 April 2010 has been increased by £9,233k from £19,565k to £28,798k to reflect the change in accounting policy regarding the valuation of Heritage Assets.

31 March 2011 As restated	Category	General Fund	Housing	31 March 2012
£' 000		£' 000	£' 000	£' 000
938	Upward revaluation of assets	5,243	29,321	34,564
-16,644	Downward revaluation of assets and impairment losses not charged to Surplus/Deficit on provision of services.	-3,068	0	-3,068
-15,706				31,496
2,698	Depreciation written out on revaluations of fixed assets	3,069	2,579	5,648
-13,008	Surplus or deficit (-) on revaluation of non-current assets not posted to the surplus or deficit on the provision of services. (This figure appears in last section of Comp I&E Stmt on page 8)	5,244	31,900	37,144
-754	Transfers to Capital Adjustment Account (note 19.3) - Write-out the revaluation gains previously recognised for assets disposed of in current year.	-44	0	-44
-34	Difference between fair value depreciation and historical cost depreciation following revaluations.	-163	0	-163
-13,796	Total movement in reserve in the year.	5,037	31,900	36,937
28,798	Balance at 1 April	14,768	234	15,002
15,002	Balance at 31 March	19,805	32,134	51,939

19.2 FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

This unusable reserve 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 accounting arrangements and are required by statute to be met from the General Fund. It also has to carry the value of any impairments to investments.

31 March 2011	Category	New Advances	Redemptions	31 March 2012
£ ' 000		£ ' 000	£ ' 000	£ ' 000
-541	Premiums paid on premature redemption of PWLB loans. - General fund share	0	37	-504
-239	- HRA share	0	100	-139
-780	Total	0	137	-643
206	Discounts received on premature redemption of loans. - General fund share	0	-27	179
58	- HRA share	0	-13	45
-516	Net Total of Premiums / Discounts	0	97	-419
-778	Soft Loans (difference between actual value & fair value)	-19	65	-732
0	Impairment of investments	0	0	0
-1,294	TOTAL	-19	162	-1,151

There have been various debt restructures between 1998/99 and 2008/09 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). These are included in the above account.

The main component of soft loans relates to loans of £4m and £1.5m to Kent Cricket Club and an interest-free loan of £600,000 advanced to Active Life.

Full details regarding the impairment of investments are set out in note 11.5.

19.3 CAPITAL ADJUSTMENT ACCOUNT

This reserve reflects the timing differences between the historical cost of non-current assets consumed, and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts that have been set aside to finance the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on Investment Properties. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

2010/11 Total	CAPITAL ADJUSTMENT ACCOUNT	General Fund	Housing	2011/12 Total
£' 000	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	£' 000	£' 000	£' 000
	Charges for depreciation and impairment.			
-67,310	Charges for impairment of non-current assets	-9,780	-7,702	-17,482
-5,433	Depreciation and amortisation of non-current assets	-3,540	-2,905	-6,445
34	Additional depreciation transferred from Revaluation Reserve to Capital Adjustment a/c after revaluations	163	0	163
	Debits relating to disposals.			
-2,248	Amounts of non-current assets written off on disposals in current year.	-588	-552	-1,140
341	Less depreciation written out on disposals in current year	444	0	444
754	Less: Transfer from Revaluation Reserve to Capital Adjustment account following disposal.	44	0	44
	Debits relating to the historical cost of revenue funded from capital.			
-525	Revenue expenditure less grants funded from capital under statute	-347	0	-347
-127	Repayments of soft loans and housing act advances.	-160	0	-160
-74,514	Net written out amount of the cost of non-current assets consumed in the year.	-13,764	-11,159	-24,923
	Credits relating to capital financing applied in the year.			
5,039	Capital expenditure financed from capital receipts reserve	4,645	0	4,645
3,878	Capital expenditure financed from major repairs reserve	0	3,926	3,926
2,079	Capital expenditure charged against the General Fund and HRA balances.	245	572	817
5,003	Capital expenditure financed by grants	8,013	325	8,338
2,372	Capital expenditure financed by grants received in previous year where conditions have now been met.	221	325	546
1,122	Statutory provision for the financing of capital charged to the General Fund (minimum revenue provision)	1,231	0	1,231
19,493	Total credits from resources set aside to finance capital.	14,355	5,148	19,503
-55,021	Movement in the year.	591	-6,011	-5,420
-3,196	Movement in the market value of Investment Properties debited or credited to the Comp. Income & Expenditure Stmt.	131	406	537
0	Housing Settlement Determination payment	0	-96,828	-96,828
390,111	Balance at 1 April	145,515	186,379	331,894
331,894	Balance at 31 March	146,237	83,946	230,183

19.4 PENSIONS RESERVE

The Pensions Reserve absorbs the timing differences due to the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statute. The council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2010/11		2011/12
£ ' 000		£ ' 000
89,246	Balance at 1 April	35,926
-38,355	Actuarial gains or losses on pensions assets and liabilities	19,777
-9,863	Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the Comprehensive I&E Statement	2,457
-5,102	Employer's pensions contributions and direct payments to pensioners payable in the year	-3,627
35,926	Balance at 31 March	54,533

19.5 DEFERRED CAPITAL RECEIPTS RESERVE

This reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statute, these gains are not treated as usable for financing new capital expenditure until they are backed by cash receipts. These amounts arise principally from mortgages on sales of council houses, which form the main part of mortgages under long-term debtors. When cash is received, the amount is transferred to the Capital Receipts Reserve.

£ ' 000		£ ' 000
47	Balance at 1 April	30
-17	Transfer to the Capital Receipts Reserve upon receipt of cash	-8
30	Balance at 31 March	22

19.6 COLLECTION FUND ADJUSTMENT ACCOUNT

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

£ ' 000		£ ' 000
42	Balance at 1 April	4
-38	Amount by which council tax income credited to the Comp. I&E Statement is different from council tax income calculated for the year under statute.	-59
4	Balance at 31 March	-55

19.7 SHORT-TERM ACCUMULATED ABSENCES ACCOUNT

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

£ ' 000		£ ' 000
-205	Balance at 1 April	-127
205	Settlement or cancellation of accrual made at end of previous year.	127
-127	Amounts accrued at the end of the current year.	-115
	Net difference to Comp. I&E Statement	12
-127	Balance at 31 March	-115

20. CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2010/11		2011/12
£' 000		£' 000
1,136	Interest paid	1,225
-452	Interest received	-583
684	TOTAL	642

Full details of investing and financing activities are included in the main cash flow statement itself.

21. TRADING OPERATIONS

The council operates the following trading operations:

	2009/10	2010/11	2011/12
The council runs three markets and various boot fairs	£' 000	£' 000	£' 000
Turnover	-217	-231	-242
Expenditure	303	187	178
Surplus (-) / deficit on trading operations	86	-44	-64

22. GRANT INCOME

The council credited the following grants and contributions to the comprehensive income and expenditure statement.

2010/11	Credited to Taxation and Non-Specific Grant Income	2011/12
£' 000		£' 000
	(a) General government grants	
-1,678	Revenue support grant	-2,478
-11,553	Distribution from non-domestic rate pool	-8,017
-79	Area based grant	0
0	New homes bonus and council tax freeze grant	-674
-13,310	Total of General government grants	-11,169
	(b) Recognised capital grants and contributions	
-1,884	Marlowe fundraising	-1,263
-1,000	KCC re Marlowe	-2,239
-1,285	Heritage lottery re Beaney	-4,142
-556	Heritage lottery re Whitstable Castle	-41
-278	Other capital grants applied in current year	-1,199
-5,003		-8,884
	Capital grants applied in previous year where conditions now met	
-916	Seeda re Beaney land purchase	0
-1,456	Heritage lottery re Beaney	0
-7,375	Total of Recognised capital grants and contributions	-8,884

22. GRANT INCOME (con)

The council credited the following grants and contributions to the comprehensive income and expenditure statement.

2010/11	Credited to Services	2011/12
£' 000	(a) "True" revenue grants	£' 000
-26,147	Rent allowances	-28,251
-14,462	Rent rebates	-15,466
-10,238	Council tax benefits	-10,331
-951	Benefits administration	-992
-834	Concessionary fares	0
-472	Sure Start partnership	-451
0	New homes bonus	-441
-241	NDR	-234
-246	Homelessness	-364
0	Council tax freeze grant	-233
-616	Other revenue grants	-577
<u>-54,207</u>		<u>-57,340</u>
	(b) Grants re Revenue expenditure funded by grants under Statute (REFCUS)	
-378	Housing specified grant for disabled facilities	-535
-342	Regional housing board grant	0
-683	Defra re coast protection	-518
-74	Other grants	-24
<u>-1,477</u>		<u>-1,077</u>
-55,684	Total of General government grants	-58,417

The council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned if the conditions are not met. They are credited to this account until the terms of the condition are substantially met.

2011	Capital grants receipts in advance	2012
£' 000	Grants received-	£' 000
0	Seeda grant for Beaney land purchase	0
0	Heritage lottery grant for Beaney refurbishment	0
-316	Section 106 grants relevant to specific sites	-303
-316	Balance at 31 March	-303

23. EXTERNAL AUDIT COSTS

The council has incurred the following costs in relation to the audit of the Statement of Accounts and certification of grant claims.

2010/11		2011/12
£' 000	Fees payable to the Audit Commission for	£' 000
122	External audit services carried out by the appointed auditor	114
0	Statutory inspection	0
29	Certification of grant claims and returns	39
151	Total	153

24. MEMBERS' ALLOWANCES

The total of members' allowances paid in the year was £ 379,500. (2010/11 - £374,400)
 Figures for PC allowances, travel & subsistence and national insurance are included from 2005/06.

25. 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 2010/11	Remuneration Band	Number of Employees 2011/12
2	£ 50,000 - £ 54,999	8
2	£ 55,000 - £ 59,999	2
3	£ 60,000 - £ 64,999	4
4	£ 65,000 - £ 69,999	1
1	£ 70,000 - £ 74,999	0
4	£ 75,000 - £ 79,999	4
1	£ 80,000 - £ 84,999	1
0	£ 85,000 - £ 89,999	0
2	£ 90,000 - £ 94,999	1
0	£ 95,000 - £ 99,999	1
1	£130,000 - £134,999	1
20	TOTAL	23

These figures include employee pension contributions.

25.1 SENIOR OFFICERS' EMOLUMENTS

This was 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.

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.

2010/11 Salaries, fees & allowances paid or receivable. £' 000		2011/12 Salaries, fees & allowances paid or receivable. £' 000	2011/12 Employer's contribution to pension - pensionable pay multiplied by common contribution rate. £' 000
133	Head of Paid Service - Chief Executive	133	19
70	Chief Financial Officer - Director of Finance	75	10
76	Head of Legal & Democratic Services	76	10
Non Statutory Directors			
91	Strategic Director and Deputy Chief Executive	96	12
95	Strategic Director	95	12
Other direct reports to Chief Executive			
80	Head of Culture & Enterprise	81	10
76	Head of Planning & Regeneration	76	10
62	Head of Policy & Improvement	62	8
62	Head of Communications	63	8

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.

26 EXIT PACKAGES & TERMINATION BENEFITS

The council terminated the contracts of a number of employees in 2011/12, incurring liabilities of £302,000 (£577,000 in 2010/11). The total in 2011/12 is payable in respect of 17 officers from various divisions within the council who were made redundant as part of the council's rationalisation of the service. The total cost of these exit packages is analysed in bands of £20,000 below:

Band	2011/12	
	Number of Employees	Total cost £'000
£ 0 - £ 19,999	12	102
£ 20,000 - £ 39,999	3	99
£ 40,000 - £ 59,999	2	101
£ 60,000 -	0	
TOTAL	17	302

27. 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. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the council.

Central Government

Central government has effective control over the general operations of the council - it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in note 22 (above) - both credited to services and credited to taxation and non-specific grant income. Grant receipts outstanding are also shown in this note.

Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in the last year is shown in note 24. Details of any related party transactions with members are collected annually.

East Kent Housing Ltd

The council has a 25% share of East Kent Housing Ltd., an arms length management organisation. 2011/12 was the first year of operation. Payment of £3,114,000 was made in 2011/12 to East Kent Housing in respect of management fees and the council received £1,542,000 from East Kent Housing in respect of services supplied to it. Balances due to / from East Kent Housing at 31 March 2012 are £4,000 and £457,000 respectively, (the latter includes a credit note of £146,000 for the council's allocation of the 2011/12 surplus).

Precepting authorities

The council collects council tax on behalf of its three precepting authorities who in turn precept the council for the amounts set out below. (These figures are also shown in the Collection Fund Accounts). Kent County Council also administers the Kent Pension Fund on behalf of Kent districts.

	Receipts £ ' 000	Payments £' 000	Debtors £' 000	Creditors £' 000
Kent County Council - Precept		54,669		0
Kent Police Authority - Precept		7,236		0
Kent & Medway Fire Authority Precept		3,545		0
Kent County Council Pension Fund		3,283		200

28. 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 Actives Lives'.

The PFI generated 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 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 retains ownership of the freehold of both properties and receives a peppercorn rent for the use of the properties.

Under the agreement, the council 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.

29. IMPAIRMENT LOSSES

Impairment losses on Property, Plant and Equipment which are charged to the surplus or deficit on the provision of services are shown in note 9 to the financial statements. Impairment losses on financial assets are shown in the financing and investment section of the Comprehensive Income and Expenditure Statement.

There are two material impairments included in the provision of service costs within Cultural & Related Services. Herne Bay pier deck was impaired by £3,165k due to the demolition of part of the structure and a resulting change in valuation method from depreciated replacement cost to market value. Whitstable Castle was impaired by £3,228k due to a reclassification of the asset as a heritage asset which amended the valuation method to historical cost.

30. 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 is Barnett Waddingham.

Transactions relating to retirement benefits.

We recognise the cost of retirement benefits in the reported Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance during the year:

2010/11	Transactions in the Comprehensive Income and Expenditure Statement	2011/12
£' 000	Cost of services:	£' 000
3,135	- Current Service cost	2,080
-11,894	- Past Service costs (includes capitalised gain from change in pension increase policy from RPI to CPI in 2010/11)	0
-3,155	- Settlements (-481) and curtailments (73) (The above two are shown as "Non-Distributed Costs")	-408
	Financing and Investment Income and Expenditure:	
7,907	Interest cost of pension scheme liabilities	6,417
-5,856	Expected return on employer assets	-5,632
-9,863	Total retirement benefit charged to the Surplus or Deficit on the provision of services	2,457
	Other retirement benefit charged to the Comprehensive Income and Expenditure Statement	
-38,355	Actuarial Losses / Gains (-) [16,171 + 3,606 in next two tables]	19,777
-48,218	Total charged to the Comprehensive Income & Expenditure Statement	22,234
	Movements in Reserves Statement	
9,863	- Reversal of net charges made for retirement benefits in accordance with the code to the Surplus or Deficit for the provision of services	-2,457
	Actual amount charged against the General Fund Balance for pensions in the year:	
4,750	Employer contributions payable to the scheme.	3,283
352	Unfunded benefits paid	344

Assets and liabilities in relation to retirement benefits.

£' 000	Movement in Defined Benefit Obligation ("Scheme liabilities")	£' 000
-170,318	Opening balance at 1 April	-122,112
-3,135	Current Service cost	-2,080
11,894	Past Service cost (includes gain from change in pension policy)	0
9,525	Losses (-) / Gains on settlements (3894) and curtailments (-73)	3,821
-958	Contributions by members (employees)	-692
5,493	Estimated benefits paid	5,685
352	Estimated unfunded benefits paid	344
-7,907	Interest cost of pension scheme liabilities	-6,417
32,942	Actuarial Losses (-) / Gains	-16,171
-122,112	Closing balance at 31 March	-137,622

30. PENSION COSTS (continued)

In the UK budget statement on 22 June 2010, the Chancellor announced that, with effect from 1 April 2011, public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Price Index (RPI). This had the effect of reducing the council's liabilities in the Kent Pension Fund by £11,894k in 2010/11 and has been recognised as a past service gain in accordance with guidance set down in UITF Abstract 48, since the change is considered to be a change in benefit entitlement. There is no impact upon the General Fund or Housing Revenue Account.

2010/11	Movement in Fair Value of scheme assets	2011/12
£' 000		£' 000
81,072	Opening balance at 1 April	86,186
4,750	Employer contributions	3,283
958	Contributions by members (employees)	692
352	Contributions in respect of Unfunded Benefits	344
-5,493	Benefits paid	-5,685
-352	Unfunded benefits paid	-344
5,856	Expected return on employer assets	5,632
5,413	Actuarial gains / losses(-)	-3,606
-6,370	Payment of bulk transfer values	-3,413
86,186	Closing balance at 31 March	83,089

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

The actual return less expected return on pension scheme assets in the year was (-)£3,606k. (£1,346k in 2010/11).

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 2011	Assets value at 31 March 2011	Assets (Employer)	Expected Long Term Return at 31 March 2012	Assets value at 31 March 2012
% per annum	£ ' 000		% per annum	£ ' 000
7.4	65,501	Equities	6.3	61,485
4.4	862	Gilts	3.3	831
5.5	10,342	Other bonds	4.6	8,309
5.4	7,757	Property	4.3	7,478
3.0	1,724	Cash	3.0	3,324
0.0	0	Target return	4.7	1,662
6.9	86,186	Total	5.8	83,089

2011	Net Pension Liability as at 31 March in Balance Sheet	2012
£ ' 000		£ ' 000
86,186	Fair Value of Employer Assets (A)	83,089
-118,206	Present Value of Funded Liabilities (B)	-133,597
-32,020	Net underfunding in Funded Plans (A) - (B)	-50,508
-3,906	Present Value of Unfunded Liabilities (C)	-4,025
-35,926	Net Pension Liability (A) - (B) - (C) in Balance Sheet	-54,533

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.

30. PENSION COSTS (continued)

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.

Scheme history

	2011/12	2010/11	2009/10	2008/09	2007/08
	£' 000	£' 000	£' 000	£' 000	£' 000
Present value of liabilities	-137,622	-122,112	-170,318	-107,470	-116,340
Fair value of scheme assets	83,089	86,186	81,072	60,890	75,130
Surplus/ deficit (-) in the scheme	-54,533	-35,926	-89,246	-46,580	-41,210
Experience adjustments on scheme liabilities	-54	17,589	861	70	3,720
Percentage of liabilities	0.0%	-14.4%	-0.5%	-0.1%	-3.2%
Experience adjustments on scheme assets	-3,606	5,413	17,147	-20,040	-13,940
Percentage of assets	-4.3%	6.3%	21.2%	-32.9%	-18.6%
Actuarial gains / losses(-)	-19,777	38,355	-42,214	-3,820	8,740
Cumulative actuarial gains/losses	-36,897	-17,120	-55,475	-13,261	-9,441

The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The total liability of £137,622k has a substantial impact on the net worth of the council as recorded in the Balance Sheet, resulting in a negative overall balance of £54,533k. However statutory arrangements for funding the deficit mean that the financial position of the council remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The estimated employer's contributions for the year 2012/13 are £3,415k.

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:

2010/11	Mortality assumptions	2011/12
Years	Longevity at 65 for current pensioners:	Years
19.8	Men	20.0
23.9	Women	24.0
	Longevity at 65 for future pensioners:	
21.9	Men	22.0
25.8	Women	25.9
2010/11	Financial assumptions	2011/12
%		%
3.5	RPI increases	3.3
2.7	CPI increases / pension increase rate	2.5
4.5	Rate of increase in salaries	4.3
5.5	Rate for discounting scheme liabilities (discount rate)	4.6
6.9	Expected return on assets	5.8

31. NOTE ON HERITAGE ASSETS

FRS 30 defines a heritage asset as 'A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.'

This accounting standard was issued in 2010/11 and is being adopted for the first time in 2011/12 with the balance sheet being restated as at 1 April 2010 and 31 March 2011. It is not practicable to give details of transactions prior to April 2010.

The restatement resulted in the introduction of the asset class 'Heritage assets' and adjustments to Land and Buildings, Community Assets and the Revaluation Reserve.

Canterbury City Council owns a large number of heritage assets which have either been donated to the council or purchased or the council has inherited from other public bodies.

The assets are maintained to a standard which enables them to retain their original value. Therefore, it is not considered appropriate to depreciate these assets.

The assets fall into two basic categories: land and buildings and museum contents and artefacts, plus various items of public art and sculpture on display around the district.

Land and Buildings

The council owns the following land and buildings, most of them historic, which are held and maintained principally for their contribution to knowledge and culture. Assets whose primary function is operational, such as the Holy Cross Church (The Guildhall), Tower House, The Marlowe Theatre and museum buildings are not classed as Heritage Assets. Where the asset values are recorded on the fixed asset register, these values are also shown. However, there are many assets where the Council does not hold information on the cost or value, and it is considered that the cost of obtaining this information outweighs the benefit to the reader of the accounts.

Asset	At 1 April 2010 £'000	At 31 March 2011 £'000	At 31 March 2012 £'000
Roper Gateway, St Dunstons Street	0	0	0
Jesuit Chapel (Hales Place Chapel Trust)	0	0	0
Black Princes Chantry Wall	0	0	0
Roman Site Butchery Lane	972	972	972
Canterbury Castle	30	30	30
City Walls	0	0	0
Dane John Mound	0	0	0
St George's Clocktower	0	0	0
St Mary Magdalene Clocktower	0	0	0
Herne Bay Clocktower, Central Parade	0	0	0
Littlebourne Barn	157	157	157
1 st and 2 nd World War Memorial	0	0	0
Boer War Memorial, Dane John	0	0	0
Kent Yeomanry War Memorial adj. Nasons	0	0	0
Whitstable War Memorial	0	0	0
Memorial to Kentish Martyrs	0	0	0
Heritage Assets - Land & Buildings	1,159	1,159	1,159

The buildings are all maintained by the council's buildings maintenance department. There are regular inspections and any maintenance required is carried out as part of the maintenance programme for all of the council's buildings.

31. NOTE ON HERITAGE ASSETS (con)

Museum contents and other artefacts

The council operates five museums:

- The Royal Museum and Art Gallery, Canterbury (sometimes called 'The Beaney')
- The Herne Bay Museum and Gallery
- The Whitstable Museum and Gallery
- Canterbury Heritage Museum
- Canterbury Roman Museum

The Council also owns the building which houses the following museum which is operated externally:

- Westgate Towers Museum

Canterbury's Museum Service was started in 1825 in the Philosophical and Literary Institution in Guildhall Street. Under the Museums Act of 1845 it became the first local authority museum in Kent in 1846. The Service, now operated under the 1964 Libraries & Museums Act, has since 1974 been a district-wide provision with museums in Canterbury and since 1985 in Whitstable, and since 1996 at Herne Bay.

In Canterbury the Museum outgrew its Guildhall Street site and the bequest of Dr Beaney provided for the move to its current premises on the High Street. It opened here as the Royal Museum in 1899. The Slater family bequest allowed for the addition of the art gallery in 1934.

Whitstable Museum opened in 1985 and an extension providing art gallery space was completed in 1991.

The art in the museums was last valued in 2006 by Sotheby's for insurance purposes at £7,100,000. Since then, the valuation has been adjusted to a figure of £6,980,000.

Other museum exhibits are valued for insurance purposes at £840,000 and various civic and public art commissions are valued at £670,000 giving an overall total of £9,531,000 which also includes Tower House and Van Dyck paintings, but excludes exhibitions on loan to the Council.

The following assets are included on the fixed asset register:

Asset	At 1 April 2010 £'000	At 31 March 2011 £'000	At 31 March 2012 £'000
Museum Exhibits	840	840	840
Art Collection	6,980	6,980	6,980
Civic and Public Art Commissions	670	670	670
Tower House paintings	41	41	41
Van Dyck painting	950	950	1,000
Heritage Assets - Museum contents etc	9,481	9,481	9,531

It has been determined that the civic regalia should be classed as operational assets as they are used in the course of the Council's business.

The museums service is managed by a director and a small team whose duties are to look after and preserve the exhibits.

The value of acquisitions and disposals in the last five years is deemed to be insignificant.

SUMMARY OF HERITAGE ASSETS

Heritage Asset Category	At 1 April 2010 £'000	At 31 March 2011 £'000	At 31 March 2012 £'000
Land & Buildings	1,159	1,159	1,159
Museum contents etc	9,481	9,481	9,531
Heritage Assets - Total	10,640	10,640	10,690

This shows the balance sheet figures for Heritage Assets which have been adjusted back to 1 April 2010. The total increase in value at 1 April 2010 is only £9,233k (from £371,664k to £380,897k) as £1,408k of the above value was transferred from Community Assets. The Revaluation Reserve has therefore also been increased by £9,233k (from £19,565k to £28,798k) at 1 April 2010. These same adjustments have been made to unusable reserves in the Movements in Reserves Statement and note 9 regarding assets.

32. OPERATING LEASES PAYABLE

The authority has acquired some equipment (e.g. for car parks) through operating leases. The amount paid under these arrangements in 2011/12 was £25,000 (2010/11 - £25,000). During 2011/12 the authority acquired more than an insignificant amount of use of the leisure facilities at Herne Bay High School for 25 years, in return for a payment of £2.4m. This arrangement is being treated as an operating lease payment (£81,000 for 2011/12).

The future cash payments required under these leases are:

Details of period	Commitment in	
	2012/13	2013/14> onwards
Those operating leases in which the commitment:	£ ' 000	£' 000
expires within that year	25	0
expires in the second to fifth years from the balance sheet date	0	0
expires over five years from the balance sheet date	98	2,221
TOTAL	123	2,221

The authority's Park and Ride service is operated under an arrangement which is classed under International Financial Reporting Standards as containing an embedded lease. This lease is classified as an operating lease but it is not possible to separate the payments to the operating company between lease payments and payments for other elements of the service.

The total payments from the commencement of the contract on 1 April 2009 are as follows:

	£ ' 000
2009/10	1,012
2010/11	1,095
2011/12	1,125

Payments for 2012/13 onwards will be the payment for 2011/12 increased by an uplift of up to the percentage increase in the Top Level Services Producer Price Index over the preceding twelve-month period.

OPERATING LEASES RECEIVABLE

The council owns a large portfolio of property including two industrial estates and various properties in the city centre.

Much of this land is leased out. A review of the leases by the council has concluded that these leases are classed as operating leases as the risks and rewards of ownership of the land remain with the lessor.

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

Details of period	2012/13	2013/14-> onwards
	£ ' 000	£' 000
Not later than one year	223	0
Later than one year and not later than five years	322	877
Later than five years	3,631	461,942
TOTAL	4,176	462,819

33. ASSETS HELD UNDER FINANCE LEASES

The original total capital value of finance lease agreements at 31 March 2012 is approximately £193,000 of which the outstanding obligations amount to less than £1,000. Finance lease payments for the year amounted to £ 200 (2010/11 - £ 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 balance sheet.

The council has awarded a contract to Serco for the provision of its waste collection and other services. The assets used by Serco in the execution of these services constitute an embedded finance lease under IFRIC 4 conditions. The net book value of these assets as at 31 March 2012 was estimated to be £212k, and this is being written off during the remaining year of the contract at the rate of £212k p.a.

34. CONTINGENT LIABILITY

At 31 March 2012, the Council had two significant contingent liabilities.

Municipal Mutual Insurance Company (MMI)

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

Unfortunately a sale has never been achieved and more recently claims have emerged where courts have ruled in favour of others rather than MMI. This has increased the risk that a solvent run-off will not be achieved. If that were to be the case, councils (and others, such as housing associations) would be liable to clawback of monies paid out to settle claims. The main areas for claims that have arisen since the demise of MMI relate to abuse and asbestos. As at 31 March 2012 the estimated amount liable to clawback from the council stands at up to £1,285k.

Executive on 16 January 2012 approved the transfer of £1,003k from the concessionary fares reserve (as this was the balance left after successful settlement of the appeal) to a new earmarked reserve "MMI run-off reserve" as listed in note 7. A further transfer of £282k was made to this reserve from the revenue underspend in 2011/12 bringing the level of this reserve up to £1,285k, the amount of the potential liability. There is no action the council can take to improve its position. The situation will be subject to ongoing review and any change to MMI's solvency and the effect on the Council's potential liability will be reflected in future accounts.

East Kent Housing Ltd

From 1 April 2011, East Kent Housing Ltd., a company jointly owned by Canterbury, Shepway, Dover and Thanet councils commenced trading. East Kent Housing is an Arms Length Management Organisation (ALMO) set up by the four councils to manage its housing stock. Canterbury retains ownership of its housing stock, but the ALMO, from 1 April 2011, takes responsibility for Canterbury's day to day housing services management. East Kent Housing is a company limited by guarantee.

The council has entered into an agreement with East Kent Housing that if the company is not able to make payments to the Kent Local Government Pension Fund in respect of the pensionable service of employees transferred from the council, then the council will meet such payments

East Kent Housing Ltd's pension liability has increased from £1.7 million to £5.1 million at 31st March 2012. However, the company remains able to meet its current pension obligations and will not be making calls on the four owner councils towards its pension contributions.

Revised future contribution rates will not be set until 2014/15, meaning that the company should be able to meet its current pension obligations at least up to that point. The impact of any increase to its future contribution rate may have to be assessed within the context of future management fees.

34a. POST BALANCE SHEET EVENTS

The council is required to consider events that may have an impact on the accounting statements since 31 March 2012. No events have occurred that require changes to the accounting statements.

SEGMENTATION REPORTING (con)

For the year ended 31 March 2012

There are no segments reported (in this note) as there are no reporting sub-divisions within the monitoring reports to the Council's Executive Committee.

	£000s
Fees, charges & other service income	(24,264)
Dwelling rents	(20,227)
Government grants	(57,702)
Total Income	(102,193)
Employee expenses	14,442
Premises, transport & service expenses	44,201
Housing settlement determination payment	96,828
Housing benefit payments	53,894
Interest & principal payments & RCCO	3,178
Total operating expenses	212,543
Net Cost of Services	110,350

Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

	£000s
Cost of Services in Service Analysis	110,350
Add amounts not reported in service management accounts	24,938
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	959
Net Cost of Services in Comprehensive Income and Expenditure Statement	136,247

Reconciliation to Subjective Analysis (Single Entity)	Service Analysis		Not reported in service mand a/c's		Not included in I&E		Net Cost of Services		Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	
Fees, charges & other service income	(24,264)	0	4,410	(19,854)	(4,414)	(24,268)			
Dwelling rents	(20,227)	0	0	(20,227)	0	(20,227)			
Recharges	0	(1,235)	0	(1,235)	411	(824)			
Interest and investment income	0	0	0	0	(489)	(489)			
Income from council tax	0	0	0	0	0	0			
Government grants and contributions	(57,702)	(1,203)	0	(58,905)	(20,053)	(78,958)			
Total Income	(102,193)	(2,438)	4,410	(100,221)	(34,394)	(134,615)			
Employee expenses	14,442	1,654	(63)	16,033	855	16,888			
Other service expenses	44,201	1,820	(210)	45,811	209	46,020			
Housing settlement payment	96,828	0	0	96,828	0	96,828			
Housing benefit payments	53,894	0	0	53,894	0	53,894			
Depreciation, amortisation and impairment	0	23,902	0	23,902	(512)	23,390			
Interest & principal payments & RCCO	3,178	0	(3,178)	0	1,368	1,368			
Precepts & Levies	0	0	0	0	708	708			
Payments to Housing Capital Receipts Pool	0	0	0	0	800	800			
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	0			
Total operating expenses	212,543	27,376	(3,451)	236,468	(673)	239,223			
Surplus or deficit on the provision of services	110,350	24,938	959	136,247	(31,639)	104,608			

SEGMENTATION REPORTING

For the year ended 31 March 2011

There are no segments reported (in this note) as there are no reporting sub-divisions within the monitoring reports to the Council's Executive Committee.

	£000s
Fees, charges & other service income	(20,480)
Dwelling rents	(19,052)
Government grants	(56,616)
Total Income	(96,148)
Employee expenses	18,421
Premises, transport & service expenses	37,993
Housing benefit payments	50,489
Interest & principal payments & RCCO	4,273
Total operating expenses	111,176
Net Cost of Services	15,028

Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

Cost of Services in Service Analysis	15,028
Add amounts not reported in service management accounts	59,202
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	(340)
Net Cost of Services in Comprehensive Income and Expenditure Statement	73,890

Reconciliation to Subjective Analysis (Single Entity)	Service Analysis		Not reported in service mand a/c's		Not included in J&E		Net Cost of Corporate Services Amounts		Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	
Fees, charges & other service income	(20,480)	0	0	4,187	(16,293)	(4,187)	(20,480)	(20,480)	
Dwelling rents	(19,052)	0	0	0	(19,052)	0	(19,052)	(19,052)	
Recharges	0	(1,915)	0	0	(1,915)	491	(1,424)	(1,424)	
Interest and investment income	0	0	0	0	0	(561)	(561)	(561)	
Income from council tax	0	0	0	0	0	(9,847)	(9,847)	(9,847)	
Government grants and contributions	(56,616)	(1,737)	0	0	(58,353)	(20,685)	(79,038)	(79,038)	
Total Income	(96,148)	(3,652)	4,187	4,187	(95,613)	(34,789)	(130,402)	(130,402)	
Employee expenses	18,421	(1,987)	(60)	(60)	6,374	2,107	8,481	8,481	
Other service expenses	37,993	2,121	(194)	(194)	39,920	196	40,116	40,116	
Housing benefit payments	50,489	0	0	0	50,489	0	50,489	50,489	
Depreciation, amortisation and impairment	0	72,720	0	0	72,720	3,217	75,937	75,937	
Interest & principal payments & RCCO	4,273	0	(4,273)	(4,273)	0	1,378	1,378	1,378	
Precepts & Levies	0	0	0	0	0	693	693	693	
Payments to Housing Capital Receipts Pool	0	0	0	0	0	301	301	301	
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	(262)	(262)	(262)	
Total operating expenses	111,176	62,854	(4,527)	(4,527)	169,503	7,630	177,133	177,133	
Surplus or deficit on the provision of services	15,028	59,202	(340)	(340)	73,890	(27,159)	46,731	46,731	

HOUSING REVENUE ACCOUNT INCOME & EXPENDITURE STATEMENT

2010/11		2011/12
£' 000	INCOME	£' 000
19,052	Dwelling rents (gross) (Note 9)	20,227
436	Non-dwelling rents (gross)	463
132	Leaseholder's charges for services and facilities	125
1,440	Other charges for services and facilities	1,410
21,060	TOTAL INCOME	22,225
	EXPENDITURE	
4,417	Repairs and maintenance	5,448
3,427	Supervision and management	
	-General management	4,313
1,626	-Special services	853
237	Rents, rates, council tax and insurance	202
5,505	Negative housing revenue account subsidy payable (Note 10)	6,479
0	Exceptional item - Housing Settlement Determination payment (Note 8)	96,828
2,618	Depreciation charges (Note 6)	2,905
5,907	Impairment of non-current assets (Note 7)	7,703
0	Exceptional item - Impairment due to HRA valuation loss due to the reduction in the social housing discount factor	
61,179	Debt management costs	40
51	Increase / decrease (-) in provision for bad or doubtful debts	89
85,040	TOTAL EXPENDITURE	124,860
63,980	NET COST OF HRA SERVICES as included in the Comprehensive Income and Expenditure Statement	102,635
121	HRA services' share of Corporate and Democratic Core	121
64,101	NET COST OF HRA SERVICES	102,756
	HRA share of the operating income and expenditure included in the comprehensive Income and Expenditure Statement	
-222	Gain on sale of HRA fixed assets	-505
239	Interest payable	309
0	Premium on repurchase of borrowing	0
	Interest and investment income -	
-2	Mortgages	-1
-46	Notional cash balances	-25
358	Pensions interest cost and expected return on pension assets (N12)	86
-73	Capital grants and contributions receivable	-650
0	Change in fair value of HRA investment properties	-406
-7	Area based grant	0
64,348	SURPLUS(-) / DEFICIT FOR THE YEAR ON HRA SERVICES	101,564

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Councils charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

The main differences between this and the way of accounting for the HRA balance 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 £7,703k due to the assessed increase in council house values following capital works (multiplied by the social housing discount factor) being less than actual capital expenditure. These are all reversed out in the following statement.

MOVEMENT ON THE HRA STATEMENT

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.

2010/11 Net Expenditure		2011/12 Net Expenditure
£' 000 64,348	Surplus (-) / Deficit for the year on the HRA Income and Expenditure Statement	£' 000 101,564
-64,932	Adjustments between accounting basis and funding basis by statute.	-102,572
-584	Net increase (-) / decrease before transfers to or from reserves	-1,008
1,316	Transfers to / from (-) reserves. (see table below)	776
732	Increase (-) / Decrease in HRA Balance for the year	-232
-2,326	HOUSING REVENUE ACCOUNT BALANCE B/F AT 1 APRIL	-1,594
-1,594	HOUSING REVENUE ACCOUNT BALANCE C/F AT 31 MARCH	-1,826

NOTE TO THE MOVEMENT ON THE HRA STATEMENT

2010/11 Net Expenditure		2011/12 Net Expenditure
	Items included in the HRA Income and Expenditure Account, but <u>excluded</u> from the movement on the HRA Balance for the year.	
£' 000		£' 000
-67,086	Reversal of impairment losses (Note 7)	-7,703
0	Reversal: Settlement Determination payment (Note 8)	-96,828
73	Capital grants and contributions applied	650
0	Change in fair value of HRA investment properties	406
222	Net gain on sale of HRA fixed assets	505
124	Difference between amounts charged to income and expenditure for premiums and discounts and the charge for the year determined by statute.	87
-570	Capital grant & contbns unappl'd-contra cr to I&E	-325
	Net charges made for retirement benefits in accordance with FRS17 (Note 12)	-172
-67,237		-103,380
	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.	
450	Employer's contributions payable to Kent Pension Fund and retirement benefits payable direct to pensioners.	236
1,855	Capital expenditure funded by the HRA (Note 4)	572
2,305		808
-64,932	Net adjustments between accounting basis and funding basis under statute	-102,572
	Transfers to / from reserves	
1,260	Transfer to/from (-) major repairs reserve (Note 3)	833
56	Contribution to/from HRA subsidence and other reserves	-57
1,316	Transfers to / from reserves	776

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 2012, the council was responsible for managing 5,206 units of accommodation:

Type of Property	Number of Bedrooms				Total
	One	Two	Three	Four +	
Flats-Low Rise	1,099	315	5	0	1,419
Flats-Medium Rise	289	349	64	4	706
Flats-High Rise	63	69	0	0	132
Houses and bungalows	354	955	1,515	90	2,914
Hostel places	34	0	1	0	35
Totals	1,839	1,688	1,585	94	5,206

Plus 8 Basic Homes (shared ownership dwellings)

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

	Stock movements					Stock at 31/03/12
	Stock at 01/04/11	Right-to buy Sales	Sale to RSL	Additions	Redns.	
Flats	2,261	-4	0	0	0	2,257
Houses and bungalows	2,919	-8	0	5	-2	2,914
Hostels	35	0	0	0	0	35
Totals	5,215	-12	0	5	-2	5,206

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

2011	Gross Balance Sheet Value	2012
£' 000		£' 000
191,269	Operational assets	220,260
1,960	- dwellings	1,961
406	- garages	490
	- community centre	
220	Investment property	626
1,265	- land	1,265
	- shops	
195,120	TOTAL	224,602

2. VACANT POSSESSION VALUE

The vacant possession value of dwellings within the HRA as at 1 April was £688,057,500. For the balance sheet, the figure has been reduced to 32% i.e. £220,260,000 (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. The housing subsidy for 2011/12 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 2012 is £0.

3. MAJOR REPAIRS RESERVE (continued)

2010/11	Major Repairs Reserve	2011/12
£' 000		£' 000
188	Balance at 1 April	188
2,618	Transfer from capital adjustment account (HRA depreciation)	2,905
	Transfer to(-)/from HRA	
	re depreciation on non-dwellings	-38
	re contribution to revenue	-188
1,260	re excess(-)/shortfall of dwellings depreciation over MRA	1,059
-3,878	Less: expenditure on dwellings financed from this reserve	-3,926
188	Balance at 31 March	0

4. SUMMARY OF CAPITAL FINANCING

Capital expenditure of £8,009,000 was spent on housing assets (all on dwellings) within the HRA during the year. This was financed as follows:

2010/11	Capital financing of HRA expenditure	2011/12
£' 000		£' 000
3,878	Major Repairs Reserve	3,926
1,855	Revenue	572
412	Borrowing	2,861
0	Capital receipts	0
73	Capital Grant	650
6,218	Total	8,009

5. SUMMARY OF CAPITAL RECEIPTS

Housing capital receipts during 2011/12 were as follows:

2010/11	Housing capital receipts	2011/12
£' 000		£' 000
391	Dwelling sales (net of administration deduction)	1,058
2	Other sales	0
17	Mortgage repayments and discounts repaid	8
410	Total	1,066

6. DEPRECIATION OF FIXED ASSETS

Depreciation of £2,905,000 was charged to the HRA. This comprises £2,867,000 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 £7,703,000 made up of £7,686,000 from a decrease in housing stock values being the difference between £8,009,000 housing capital expenditure and the assessed increase in effective value of only £323,000 (after applying the 32% factor as in note 2 above) plus a revaluation down of £17,000 re non-dwellings.

8. HOUSING SETTLEMENT DETERMINATION PAYMENT

From 2012/13 HRA financing is changing from the subsidy system to a self-financing system. This means that in return for a settlement determination payment of £96.8m financed by taking on £96.8m debt from the government's PWLB (with annual debt payments in the region of £6.5m), the council will no longer have to pay annual subsidy to the government. Although the debt payments will equal the annual subsidy of £6.6m in 11/12, this will avoid the normal annual increases in subsidy, and the debt will be paid off in 19 years.

9. DWELLING RENTS (GROSS)

This is the total rent income for dwellings for the year after allowance is made for voids etc. Average rents were £ 78.21 per week in 2011/12 (£ 73.61 in 2010/11). Rents were increased on 1st April 2011 by an average of £4.60 per week.

10. 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:

2010/11	Housing subsidy	2011/12
£' 000		£' 000
8,493	Management and Maintenance Allowance	8,762
3,878	Major Repairs Allowance	3,926
797	Charges for Capital	660
13,168		13,348
-18,670	Notional Rent	-19,758
-2	Interest on Receipts	-1
-5,504	Sub-Total re Current Year's Subsidy	-6,411
0	Self financing interest	-26
-1	Adjustment re Previous Year's Subsidy	-42
-5,505	Total	-6,479

11. RENT ARREARS

The figures are as follows:

2010/11		2011/12
£' 000		£' 000
751	Gross Rent Arrears at 31 March	655
-249	Prepayments of Rent	-200
502	Net Rent Arrears at 31 March	455
593	Provision for bad debts at 31 March	513
%		%
3.9	Gross rent arrears as a proportion of gross dwelling rent income	3.2

12. HRA SHARE OF PENSIONS

Under IAS19 there is a requirement to analyse the movement in the HRA share of the city council's element of the Kent pension fund (see also note 30 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:

2010/11		2011/12
£' 000		£' 000
-37	HRA share of current service cost less employer contributions	40
-201	HRA share of past service cost less employer contributions	-190
-238	Adjustment to "General management" line of HRA statement	-150
358	HRA share of pensions interest cost and expected return on	86
120	pensions assets	-64
-570	Net charges made for retirement benefits in accordance with FRS17	-172
450	Employer's contributions payable to the Kent Pension Fund and retirement benefits payable direct to pensioners	236
-120	HRA share of contributions to/from Pensions Reserve	64
0	Net effect on HRA balance	0

13. INTERESTS IN COMPANIES – EAST KENT HOUSING LTD.

The council, together with Dover District Council, Shepway District Council and Thanet District Council jointly owns East Kent Housing Ltd, an Arms Length Management Organisation (ALMO), whose principal activity is to manage each of the four council's council housing stock. For financial accounting purposes, East Kent Housing (the Company) is regarded as being a joint venture under joint control and each authority holds an equal 25% share in the Company.

Under the Code, authorities with interests in joint ventures shall prepare Group Accounts, in addition to their single entity accounts, unless their interest is considered not material. This council considers that its interest in the Company is not material and that Group Accounts do not need to be prepared.

The financial (unaudited) results of the Company for 2011/12 and the council's share are as follows:

	2011/12 East Kent Housing Ltd £'000	2011/12 CCC share (25%) £'000
Turnover	8,625	2,131
Expenses	(8,341)	(2,085)
Operational profit	284	46
Profit/(loss) after taxation	(1,350)	(338)
Other comprehensive income and (expenditure)	(3,277)	(819)
Total comprehensive income and (expenditure)	(4,627)	(1,157)
Non-current assets	-	-
Current assets	1,518	380
Current liabilities	(1,079)	(270)
Non-current liabilities	(5,066)	(1,267)
Profit and loss reserve	(439)	(110)
Pensions reserve	5,066	1,267

The council's investment in the company is nominal.

Note 27 Related Party Transactions sets out the transactions that took place between the council and East Kent Housing Ltd over 2011/12. Note 34 Contingent Liabilities describes the guarantee the council has entered into with East Kent Housing Ltd over certain pension obligations.

Difference between the management fee and East Kent Housing Ltd. Costs.

The council's management fee and service charges payment of £3,114,000 is 36% of East Kent Housing Ltd's turnover of £8,625,000, which broadly equates to the council's pro-rata share of the total council housing stock managed by the company. This compares with a 36% share of East Kent Housing Ltd's operational costs of £3,011,000.

Impact of employee benefits (IAS19)

The council does not have a constructive obligation for a share of the pension fund liability, so this liability is being recognised as a contingent liability in the accounts (note 34 on page 55).

THE COLLECTION FUND
INCOME AND EXPENDITURE ACCOUNT

2010/11		Note	2011/12
£ ' 000	INCOME		£ ' 000
-64,983	Council Tax (net of benefits & transitional relief)		-64,890
	Transfers from General Fund		
-10,184	- Council Tax benefits		-10,258
-44,423	Income from business ratepayers	4	-48,522
-119,590			-123,670
	EXPENDITURE		
	Precepts and demands: (excluding payments re previous year's surplus)	2	
54,420	- Kent County Council		54,669
7,202	- Kent Police Authority		7,236
3,529	- Kent & Medway Fire & Rescue Authority		3,545
9,847	- Canterbury City Council (incl. Parishes)		9,908
74,998	Business rate	4	75,358
44,194	- Payment to national pool		48,293
229	- Costs of collection		229
	Bad and doubtful debts		
-179	- Write-offs		-121
342	- Provisions		362
300	Contributions towards previous year's estimated Collection Fund surplus		0
119,884			124,121
294	NET FUND SURPLUS (-) / DEFICIT FOR YEAR		451
-327	COLLECTION FUND BALANCE AT 1 APRIL		-33
-33	COLLECTION FUND BALANCE AT 31 MARCH	2	418

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. COLLECTION FUND SURPLUS / DEFICIT

An estimated surplus of £300,000 at 31 March 2010 was notified to KCC, KPA and K&MF&RA in December 2009. A break-even position at 31 March 2011 and 31 March 2012 was notified to all the above in December 2010 and December 2011 respectively.

2b. APPORTIONMENT OF COLLECTION FUND ELEMENT OVER PRECEPTORS

Since the 2009 SORP, the collection fund has to be apportioned at the year-end across all of the major preceptors. This comprises two elements: the share of the estimated break-even which was notified in December 2011 pro-rata to the 2011/12 precepts, and the debit balance of £418,000 pro-rata to the 2012/13 precepts. The equivalent figures last year were the share of the estimated break-even which was notified in December 2010 pro-rata to the 2010/11 precepts, and the credit balance of £34,000 pro-rata to the 2011/12 precepts.

2010/11		2011/12
£ ' 000	Major Preceptors	£ ' 000
-25	Kent County Council	303
-3	Kent Police Authority	40
-2	Kent Fire and Rescue Authority	20
-30	Total share by Major Preceptors	363
-4	Canterbury City Council	55
	(The council's own share is shown in the balance sheet under the heading - Collection fund adjustment account)	
-34	Balance at 31 March	418

The main reasons for the deficit on the collection fund at 31 March 2012 are the higher than estimated number of student exemptions and backdated band reductions that occurred during 2011/12. The deficit will be recouped from the relevant authorities as listed above.

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:

2010/11 Band D Equivalent Dwellings	Band	Estimated Number of Taxable Properties after effect of discounts	Ratio	2011/12 Band D Equivalent Dwellings
3,066	A	4,593	6 / 9	3,062
8,425	B	10,881	7 / 9	8,463
14,465	C	16,318	8 / 9	14,505
10,574	D	10,708	9 / 9	10,708
7,354	E	6,053	11 / 9	7,398
5,062	F	3,482	13 / 9	5,030
3,114	G	1,877	15 / 9	3,129
139	H	72	18 / 9	143
52,199		53,984		52,438
99.5%		Multiplied by Collection Rate		99.5%
51,938		COUNCIL TAX BASE		52,176

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:

2010/11		2011/12
£ ' 000		£ ' 000
(137,156) X (40.7p)	Non-domestic rateable value (137,244)	
55,822	multiplied by small business rate (42.6 p)	58,466
-11,628	Less: allowances and other adjustments	-10,173
44,194	Net contribution due to NNDR national pool	48,293
229	Cost of Collection	229
44,423	Income from business ratepayers	48,522

There was a general revaluation of all properties effective from 1 Apr 2010

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 Resources for the accounts. Since 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 Resources
- ◆ manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- ◆ approve the Statement of Accounts.

The Director of Resources' responsibilities:

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

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

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

The Director of Resources has also:

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

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 2012.

Signed

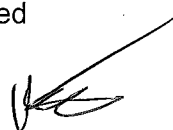


Patricia Marshall

Director of Resources

Date 24/9/12.

Signed



Cllr Robert Thomas

Chair Audit Committee

Date 24/09/12

