canterbury city council

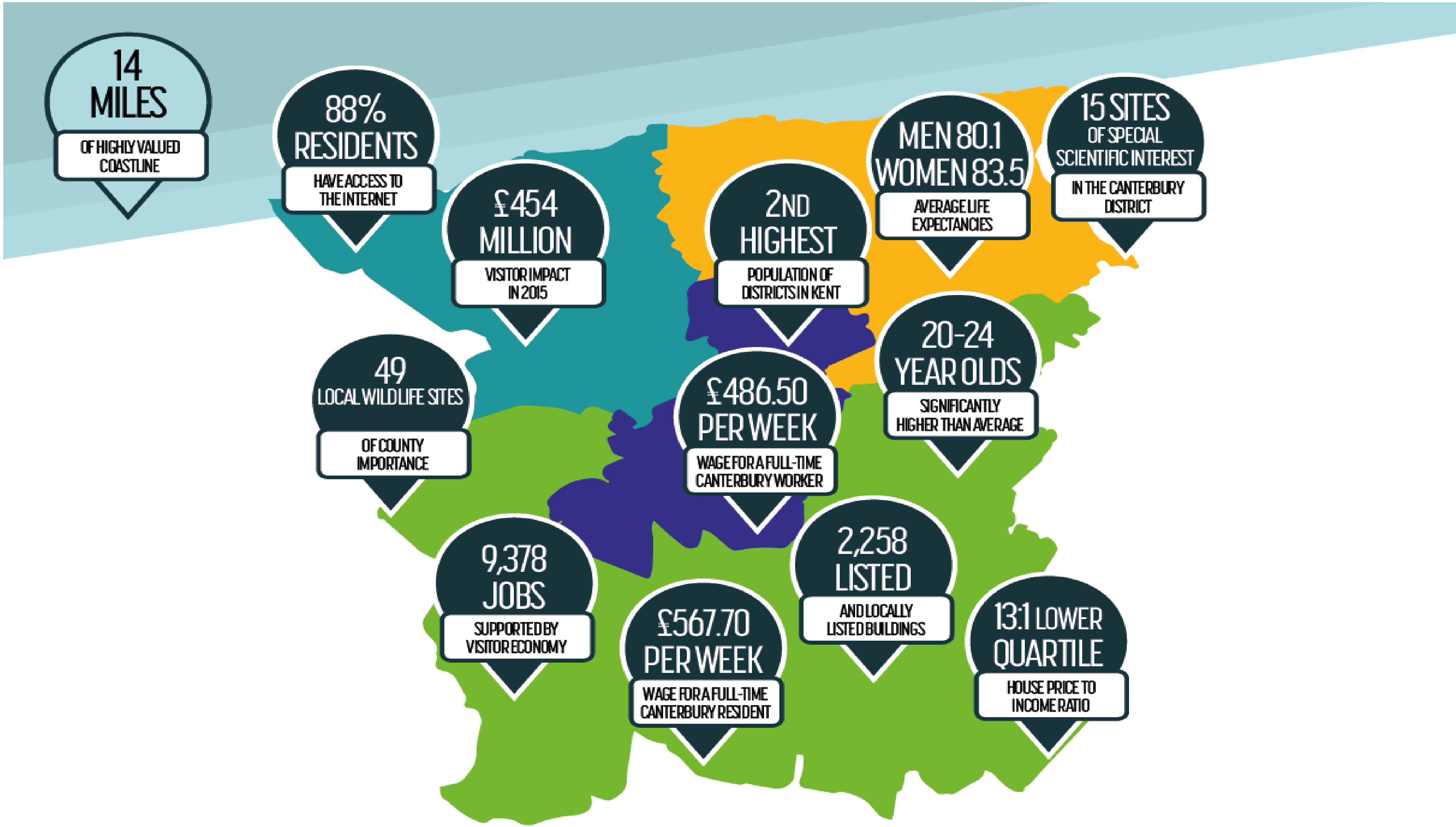
Statement of Accounts

for the Year Ended

31 March 2018

Patricia Marshall CPFA
Deputy Chief Executive

Canterbury City Council – information about the district



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THE STATEMENT OF ACCOUNTS

NARRATIVE REPORT

Introduction

This narrative report provides a guide to the Council's accounts and financial position as at 31 March 2018. It includes:

- An explanation of each of the main financial statements;
- A look back at financial and non-financial performance in 2017/18;
- Any major events or changes in presentation and accounting that impact on the Accounts; and
- Future financial challenges.

Explanation of the main financial statements

The Accounts and Audit Regulations 2015 require the Statement of Accounts to be prepared and signed by the responsible officer by 31 May 2018. The accounts are set out on pages 15 to 84. The statements have been prepared in accordance with proper accounting practices and all relevant statutory requirements.

Proper accounting practices represent compliance with the following:

- All relevant International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB - a constituent board of the Financial Reporting Council)

- The Code of Practice on Local Authority Accounting in the United Kingdom, prepared under International Financial Reporting Standards

The statements are produced using figures rounded to the nearest thousand. This has led to rounding variances in some of the totals included within the statements and the notes to the accounts.

The Statement of Accounts comprises:

- ***The Statement of Responsibilities for the Statement of Accounts***

This sets out the Council's and the Chief Finance Officer's responsibilities for the statement of accounts and includes the Chief Finance Officer's certificate.

- ***Core Financial Statements***

The core financial statements consist of the following four statements and associated notes.

  - **Comprehensive Income and Expenditure Statement**

  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. Authorities 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.

- **Balance Sheet**

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 – usable and unusable – as referred to under the Movement in Reserves Statement above.

- **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 unusable reserves. The 'surplus / (deficit) on 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 for Council Tax setting. The 'net increase /decrease before transfers to / from earmarked reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

- **Cash Flow Statement**

The Cash Flow Statement shows the changes in the Council’s cash and cash equivalent holdings 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.

- **Notes to the Core Financial Statements**

The notes present information about the basis of preparation of the financial statements and the specific accounting policies used. The notes also disclose information required by the Code that is not presented elsewhere in the financial statements but is relevant to understanding them.

- ***Supplementary Financial Statements***

In addition to the four core statements the following supplementary statements and associated notes are included within the Accounts.

- **Housing Revenue Account**

The Council is required by law to account separately for the provision of housing. This account shows the major elements of housing revenue expenditure: repairs and maintenance, administration and financing costs as well as how the expenditure is financed from rents, grants and other income. The HRA Income and Expenditure Statement is supported by a Movement on the HRA Statement.

- **Collection Fund**

The Collection Fund for English Authorities is an agent’s statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

- ***Annual Governance Statement***

This Statement accompanies the Statement of Accounts, but is not part of the Accounts. The purpose of the Annual Governance Statement is to assess and demonstrate that there is a sound system of corporate governance throughout the organisation.

- ***Independent Auditor's Report***

The Council's external auditors provide an independent opinion on whether the financial statements present a "true and fair view" of the financial position of the Council at the Balance Sheet date and its income and expenditure for the year. They also report on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

Looking back at performance in 2017/18

The Council has the following objectives.

People - residents enjoy a good quality of life and those in need are supported. It aims to do this by:

1. working to achieve enough high quality housing to meet everyone's needs
2. contributing to the good health of local people
3. focussing our community support on those in most need of it
4. acting with others to protect communities from flooding, crime and anti-social behaviour
5. inspiring people through a wide range of cultural activities and opportunities

Places – we make the most of our unique built and natural environment, by:

6. making our city, towns and villages places to be proud of
7. keeping our district clean
8. protecting and enhancing our open spaces, heritage and wildlife

Prosperity – the district has a resilient, diverse economy which supports jobs growth, by:

9. supporting business growth
10. enabling infrastructure improvements to regenerate our urban spaces and deliver economic growth

The Council's annual performance outturn report (due to be published in July) will set out the Council's performance against its key performance indicators for 2017/18 in some detail. The performance at the half year stage is set out here http://democracy.canterbury.gov.uk/documents/s92524/201718%20half%20year%20performance%20report.pdf The main area of concern at the half year position was performance against the target for missed bin collection. The Council is working with its contractor to improve performance, and has agreed a package of investment in the refuse collection service to improve reliability.

Financial performance in 2017/18

This section gives an overview of the financial performance of the Council in 2017/18 for both General Fund and Housing Services, including reasons for significant variations from planned expenditure.

General Fund Revenue Expenditure

The General Fund accounts for all revenue (day to day) services other than those provided in respect of council housing. The Council set its budget for 2017/18 at the budget meeting on 22 February 2017.

The budget strategy aimed to ensure that the Council had a balanced and sustainable budget that provided the financial resources needed to implement its key priorities. The Council has a successful record in delivering its strategy and for 2017/18 it continued with the approach adopted in previous years:

- Undertaking commissioning reviews of all services and contracts, to challenge how and why services are delivered and to enable the Council to deliver its desired outcomes in the most cost effective way;
- transforming service delivery through its digital by design programme;
- investing in and managing its property assets to generate income streams that can support the budget;
- looking to recover the cost of delivering services, particularly where the service is discretionary and/or used by a minority of taxpayers;
- plan its resources over a four-year period, to enable it to manage emerging cost pressures and to address these in a considered and cost-effective manner;
- keep a minimum General Fund Reserve level of 10% of net service expenditure;
- respond to new demands and pressures for services by seeking compensating savings from elsewhere in the budget;
- apply project appraisal, business planning and affordability processes including whole life costings to any significant new developments;
- bid for external funding, recognising that some service enhancements can only be achieved in this way;
- minimise any adverse impact on the revenue account of its capital programme;
- look for best value from developers in terms of Section 106/CIL contributions for community interest; and
- review and tightly manage its inflation pressures.

The total savings target for 2017/18 was £2.5m and the contribution from the General Fund was set at £200,000.

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

Service Area	Net budget	Outturn	Net Variance ()=saving
	£'000	£'000	£'000
Corporate Management	6,854	7,058	204
Planning & Regeneration	3,224	3,171	(53)
Strategy & Democracy	1,527	1,444	(83)
Digital and IT Services	26	126	100
Commissioned Services	11,293	11,391	98
Direct Services	(552)	(161)	391
Resources Services	(4,613)	(5,295)	(682)
Total net expenditure	**17,759**	**17,734**	**(25)**
Revenue Support Grant	(998)	(998)	(0)
NDR allocation	(4,374)	(4,378)	(4)
New Homes Bonus	(2,410)	(2,421)	(11)
Council Tax	(10,444)	(10,444)	0
Collection Fund adjustment	(232)	(232)	0
Parish precepts	699	699	0
Total income sources	**(17,759)**	**(17,774)**	**(15)**
Net position	**0**	**(40)**	**(40)**

The overall revenue outturn position for 2017/18 was an underspend of £40,000. The main variances to the budget are set out below.

Activity	**Variance (£000) ()=favourable**	**Explanation**
Corporate Management	£204k	Additional contribution to fund capital as agreed by Committee.
Digital and IT services	£100k	Additional contributions to the IT reserve to help fund the future IT programme.
Direct Services	£391k	Shortfall in income targets for parking services, markets and licensing.
Revenues and Benefits	£516k	There has been a reduction in benefit claims made during the year (though this only equates to 1% of the budget).

Housing Revenue Expenditure

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

	Net budget	Outturn	Net Variance ()=saving
	£'000	£'000	£'000
General management	3,642	3,223	(419)
Special services	2,394	2,113	(281)
Rent, rates and charges	334	361	27
Repairs & maintenance	6,212	6,063	(149)
Bad debt provision	85	230	145
Rents & service charges receivable	(25,606)	(25,374)	232
Total HRA direct budgets	**(12,939)**	**(13,384)**	**(445)**
Support costs	793	779	(14)
Contribution to/from reserves	2,114	1,661	(453)
Capital charges	4,581	4,507	(74)
Total HRA indirect budgets	**7,488**	**6,947**	**(541)**
Self financing debt	6,416	6,416	0
(Surplus)/Deficit	**965**	**(21)**	**(986)**

The overall revenue outturn position for 2017/18 was surplus of £21,000. The explanations for the main variance to the budget are set out below.

	Variance (£000) ()=favourable	Explanation
General management	(£419k)	Housing management was overall £112,000 underspent due to vacancy and consultancy savings and insurance costs recovered. A saving of £160,000 for redundancy provision that was not required. IT savings of £83,000 for reduced software costs due to the single system.
Special services	(£281k)	The expected reduction in Supporting People grant due from KCC was delayed resulting in an increase in grant income of £141,000 as well as less than anticipated costs of £107,000. Sheltered plus scheme was £41,000 underspent primarily due to utility costs being under budget.
Repairs and maintenance	(£149k)	There are various under/over spends within the repairs and maintenance budgets but the main areas are listed below.

		Repairs to buildings was underspent by £75,000 due to a lower number of repairs and maintenance jobs compared to 2015/16 on which the 2017/18 budget was based. There was an overall underspend of £91,000 across the voids price per property (PPP) and voids non PPP budgets as although there were a lower number of voids throughout the year the poor state of returned properties resulted in increased spend on some. External decorations and estate and property repairs were £91,000 underspent due to delays in the delivery of the programme. Fire prevention works overspent by £51,000 this was expected as a result of the additional works due following changes to fire risk and safety regulations. Warden call schemes overspent by £50,000 following a review of the scheme resulting in replacement work.
Bad Debt Provision	£145k	An increase in the level of arrears and write offs during the year have resulted in an overspend of £145,000.
Rents and Service charges	£233k	An under recovery of rents of £310,000 from dwellings and garages was partially offset by increased income from lease holders of £74,000.
Contribution to/from reserves	(£453k)	The use of s106 funding to partially fund the 2017/18 acquisition programme resulted in a reduction in the need to contribute to the capital funding reserve.

Capital Expenditure

Capital expenditure relates to spending on assets which last for more than one year. The capital programme for 2017/18 and beyond represents the investment priorities for the Council. The revenue impact of implementing the capital programme is reflected in the revenue budget.

The City Council's gross expenditure on capital schemes in 2017/18 was £79,337. This was financed by PWLB and other external and internal loans, grants, capital receipts and revenue contributions. The net outturn position of the capital programme after external contributions is detailed in the table below.

Service Area	**Net Budget**	**Net Actual spend**	**Carried forward**	**Net Variance () = saving**
	£'000	£'000	£'000	£'000
Total Commissioned Services	6,997	59	6,944	6
Total Deputy Chief Executive	270	150	120	0
Total Direct Services	1,417	9	1,408	0
Total Planning and Regeneration	8,869	2,306	6,563	0
Total Resources Department	78,533	76,813	572	(1,148)
Total Strategy and Democracy	0	0	0	0
Total Capital Projects	96,086	79,337	15,607	(1,142)

The main expenditure in 2017/18 was the purchase of the remaining 50% stake in the Whitefriars shopping centre, shown under Resources above. Council approved an amendment to the 2017/18 budget in January 2018 in order to proceed with this purchase.

The main items carried forward were the Kingsmead Leisure Centre refurbishment, public realm improvements, ANPR and Station Road West car park programme costs.

Balance sheet

The Council's net assets increased by £14.6m over the past year. The main reasons for this change were:

- the value of long term assets increased by £78.5m, of which £75m is due to the Whitefriars purchase and £7.7m due to an increase in the value of council dwellings;
- a reduction in net current assets of £52m; and
- an increase in long term borrowing of £13m.

The two biggest liabilities on the balance sheet are long term borrowing at £187m and the pension deficit at £85m. The majority of the Council's debt is with the Public Works Loan Board at a fixed rate of interest, with an average of 2.82%. This year the council undertook short term borrowing with another local authority at a rate of 0.8%.

Overall the Council’s balance sheet has become less liquid, as the Whitefriars purchase has been funded from short term investments, cash and short term external borrowing. As internal borrowing and short term borrowing is reduced the Council’s liquidity will improve.

The Council is a member of the Local Government Pension Scheme, which is administered on behalf of the Council by Kent County Council. The Statement of Accounts reflects the full adoption of International Accounting Standard 19 (Retirement Benefits) (IAS19). This value is assessed by the actuary in accordance with prescribed accounting rules. Note 28 shows that the total value of liabilities (i.e. future commitments from the fund) is Council's net liability of £209.73m whereas the estimated assets are valued at £124.34m – a net deficit of £85.39m. The deficit has decreased from £86.93m to £85.39m at 31 March 2018, a decrease of £1.54m.

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

The scheme has been assessed by Barnett Waddingham, an independent firm of actuaries, on behalf of Kent County Council based upon the full valuation of the scheme as at 31 March 2016. As a result of that valuation the Council’s contributions for future service have remained at the existing rate of 14.2% of pay. The contribution for past service has remained in line with previous levels, based on the deficit being cleared over 17 years. The fund is next due for revaluation as at 31 March 2019.

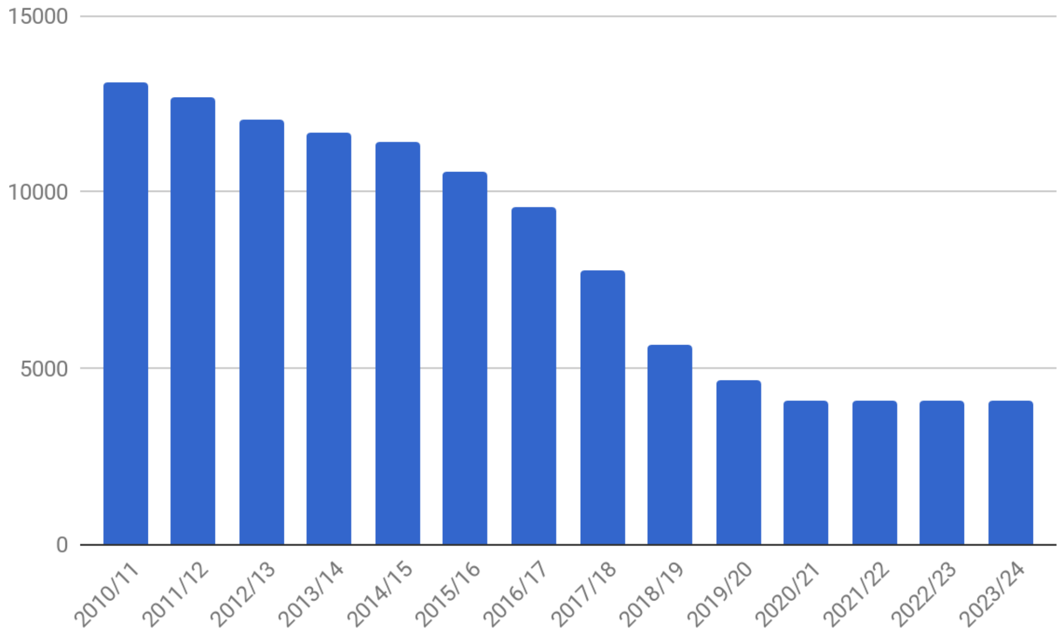
Significant changes to local authority financial regime in 2017/18

In 2017/18 the government changed the terms of the New Homes Bonus (NHB) scheme, which led to a significant reduction in NHB income in that year and ongoing. The Council adjusted its 2017/18 budget and Medium Term Plan accordingly to ensure that the reduction in funding was matched by savings elsewhere.

Future financial challenges

The future for local government funding is very uncertain, however in setting out its medium term financial plan the Council has assumed substantial reductions in government funding as set out in the graph below.

Movement in government funding (business rates, NHB and RSG combined)



For 2018/19, the Council has a balanced budget with savings of £1.9m to be achieved, all of which have been identified. Around £0.7m of these savings are from commissioning reviews. By 1 April 2023 the Council has to identify further ongoing savings of £5.2m.

The budget strategy is intended to ensure that the Council has a balanced and sustainable budget that provides the financial resources needed to implement its key priorities. The Strategy has been extended to the end of the next Council term in order to aid longer term planning. The corporate plan includes the aim that the Council is financially self-reliant by 2019/20, delivering its services without a needs based grant from central government.

In order to maximise its income, the Council is participating in a business rates retention pilot with all the local authorities in Kent and Medway. This should ensure that any additional rates income above the baseline will be retained either for use directly in the district, in East Kent or more widely across Kent and Medway.

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 resource levels between years.

The Council’s future capital programme and estimated revenue impact are set out below.

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Estimated net cost of capital programme	5,365	19,542	50,345	5,683	2,435	2,565
Net borrowing requirement before 2018 Whitefriars purchase	868	14,076	14,163	5,833	435	565
Annual revenue cost (additional each year)	35	488	360	408	30	40

The Whitefriars purchase has added annual borrowing costs of £3.52m, though this is expected to be at least matched by income received from the site. The revenue impacts shown have been included in the financial plan.

Risk management

The Audit Committee considers the Council’s risk register on a quarterly basis. For each risk identified, the Committee considers the mitigating action in place and whether further action is required to adequately manage the risk. None of the high level risks are expected to have a material impact on the Council’s financial position.

Financial risks are assessed separately in detail in the budget report and are taken into account in budget assumptions as necessary.

Conclusions

In a regime of reducing central funding and increased uncertainty, the City Council has substantially delivered its financial plan for 2017/18 and preparatory work is in place to deliver further savings in future years whilst continuing to strive to minimise the impact on services.

Finally, I would like to take the opportunity to thank all staff within the Council for their efforts in delivering the Council’s financial plans, and thanks are due in particular to the finance team for their work producing this Statement of Accounts in line with the new accelerated timetable for the closure of accounts.

Deputy Chief Executive and s151 officer
May 2018

Comprehensive Income and Expenditure Statement for the year ended 31 March 2018

This statement shows the accounting cost of providing services in the year ended 31 March 2018, in accordance with generally accepted accounting practices, rather than the amount to be funded from the taxation. The taxation position is shown in the Movement in Reserves Statement.

2016/17 Gross Exp £'000	2016/17 Income £'000	2016/17 Net Exp £'000		Note	2017/18 Gross Exp £'000	2017/18 Income £'000	2017/18 Net Exp £'000
2,535	(665)	1,870	Corporate Management		583	(901)	(318)
7,702	(3,200)	4,502	Planning & Regeneration		7,782	(3,063)	4,719
2,421	(587)	1,834	Strategy & Democracy		2,623	(752)	1,872
74	(38)	36	Digital & IT Services		171	(109)	62
24,822	(14,063)	10,759	Commissioned Services		28,233	(16,330)	11,903
15,492	(15,398)	94	Direct Services		15,928	(15,149)	780
53,692	(56,156)	(2,465)	Resources		58,903	(58,674)	229
20,227	(26,097)	(5,870)	Housing Revenue Account		22,632	(25,667)	(3,035)
126,964	**(116,204)**	**10,760**	**Cost of Services**		**136,856**	**(120,645)**	**16,211**
			Other Operating Expenditure				
0	(3,550)	(3,550)	Loss/Gain on Sales of Assets		0	(700)	(700)
778	0	778	Parish Council Precepts & Drainage Board Levy		825	0	825
544	0	544	Housing Capital Receipts Cont to Govt Pool		539	0	539
			Financing & Investment Income & Expenditure				
4,750	0	4,750	Interest Payable on Debt	12.2	5,134	0	5,134
2,841	0	2,841	Net interest on the net defined benefit liability	28.1	2,292	0	2,292
125	(3,864)	(3,739)	Investment interest and other income	12.2	34	(409)	(376)
0	(250)	(250)	Investment properties income and expenditure		0	(250)	(250)
31	0	31	Change in Fair Value of Investment Properties		0	(235)	(235)
180	(193)	(13)	Surplus from Trading Operations		146	(188)	(42)
			Taxation & Non-Specific Grant Income & Expenditure				
2,657	(1,063)	1,594	Recognised Capital Grants & Contributions	20	1,173	(1,634)	(460)
1,650	(13,464)	(11,814)	Income from the Collection Fund		0	(9,234)	(9,234)
0	(9,598)	(9,598)	Non ring-fenced Government Grants	20	0	(7,796)	(7,796)
140,521	**(148,186)**	**(7,666)**	**(Surplus)/deficit on provision of services**		**146,999**	**(141,092)**	**5,907**
		(47,764)	(Surplus)/deficit on revaluation of non current assets	18.1			(15,874)
		1,377	Remeasurement of the net defined benefit liability	28.1			(4,488)
		134	(Surplus)/deficit on revaluation of available for sale financial assets				(134)
		(53,918)	**Total Comprehensive Income & Expenditure**				**(14,589)**

Balance Sheet as at 31 March 2018

2017 £'000	2017 £'000		Notes	2018 £'000	2018 £'000
		Property, Plant and Equipment	10		
308,160		Council dwellings		315,855	
190,544		Other land and buildings		340,150	
21,032		Infrastructure assets		20,401	
5,979		Vehicles, plant and equipment		5,584	
1,472		Community assets		1,467	
0		Assets under construction		1,100	
	527,189				684,558
	12,899	Heritage Assets	10.1		12,746
	4,310	Investment Property	10		4,545
	78,750	Available for Sale Assets	12.3		0
	623,148				701,850
	1,773	Payments in Advance			1,675
	3,978	Long-term debtors	13		3,851
	628,898	**Total Long-term Assets**			**707,376**
		Current Assets			
10,011		Short-term investments	12.5	5,015	
142		Inventories		138	
7,994		Short-term debtors	14	9,783	
219		Payments in advance		248	
212		Assets held for sale	10.2	0	
32,685		Cash and cash equivalents	15	10,914	
	51,263				26,098
	680,161	**Total Assets**			**733,474**
		Current Liabilities			
(16,799)		Creditors	16	(17,001)	
(4,952)		Deposits and receipts in advance	16.1	(6,842)	
(7,930)		Short term borrowing	12.1	(32,678)	
(2,847)		Provisions	33	(3,885)	
	(32,528)				(60,406)
	647,633	**Total Assets less Current Liabilities**			**673,068**
		Long Term liabilities			
(2,324)		Other long-term liabilities	30	(1,674)	
(174,230)		Long-term borrowing	12.1	(187,273)	
(81)		Capital grants receipts in advance		(81)	
(86,934)		Liability related to defined benefit	28.2	(85,386)	
	(263,570)				(274,414)
	384,063	**Net Assets**			**398,654**
		Usable Reserves	17		
(4,540)		General Fund		(4,380)	
(12,953)		Housing Revenue Account		(12,975)	
(16,289)		Earmarked reserves	9	(18,858)	
(6,323)		Capital receipts reserve		(7,704)	
(4,580)		Capital grants unapplied		(4,389)	
	(44,685)				(48,306)
		Unusable Reserves			
(196,736)		Revaluation reserve	18.1	(212,100)	
(228,788)		Capital adjustment account	18.2	(224,111)	
452		Financial instruments adjustment a/c		408	
86,934		Pensions reserve	18.3	85,386	
0		Deferred capital receipts		0	
(1,575)		Collection fund adjustment account		(133)	
201		Short-term accumulating absences a/c		201	
134		Available for sale reserve		0	
	(339,378)				(350,348)
	(384,063)	**Total Reserves**			**(398,654)**

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.

Movement in Reserves 2017/18	**General Fund Balance**	**Earmarked Reserves**	**General Fund Total**	**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**	**£'000**
Balance at 31 March 2017	(4,540)	(16,289)	**(20,828)**	(12,953)	0	(6,323)	(4,580)	**(44,685)**	**(339,378)**	**(384,063)**
Movement in reserves during 2017/18										
(Surplus) or deficit on provision of services	7,737	0	**7,737**	(1,830)	0	0	0	**5,907**	**0**	**5,907**
Other comprehensive income and expenditure	(121)	0	**(121)**	121	0	0	0	**0**	**(20,496)**	**(20,496)**
Total comprehensive Income and Expenditure	7,616	0	**7,616**	(1,709)	0	0	0	**5,907**	**(20,496)**	**(14,589)**
Adjustments between accounting basis and funding basis under regulations (Note 6)	(9,743)	0	**(9,743)**	1,404	0	(1,381)	191	**(9,529)**	**9,529**	**(0)**
Net (increase)/decrease before transfers to Earmarked Reserves	(2,127)	0	**(2,127)**	(305)	0	(1,381)	191	**(3,621)**	**(10,968)**	**(14,589)**
Transfers to/(from) Earmarked Reserves (Note 9)	2,286	(2,570)	**(283)**	283				**0**		**0**
(Increase)/Decrease in year	160	(2,570)	**(2,410)**	(22)	0	(1,381)	191	**(3,621)**	**(10,968)**	**(14,589)**
Balance at 31 March 2018 carried forward	(4,380)	(18,858)	**(23,238)**	(12,975)	0	(7,704)	(4,389)	**(48,306)**	**(350,346)**	**(398,652)**

Movement in Reserves 2016/17	General Fund Balance	Earmarked Reserves	General Fund Total	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	£'000
Balance at 31 March 2016	(4,460)	(17,224)	**(21,683)**	(6,727)	0	(5,664)	(6,637)	**(40,711)**	**(289,434)**	**(330,145)**
Movement in reserves during 2016/17										
(Surplus) or deficit on provision of services	(2,604)	0	**(2,604)**	(5,062)	0	0	0	**(7,666)**	**0**	**(7,666)**
Other comprehensive income and expenditure	(118)	0	**(118)**	118	0	0	0	**0**	**(46,253)**	**(46,253)**
Total comprehensive Income and Expenditure	(2,722)	0	**(2,722)**	(4,944)	0	0	0	**(7,666)**	**(46,253)**	**(53,918)**
Adjustments between accounting basis and funding basis under regulations (Note 6)	3,578	0	**3,578**	(1,284)	0	(659)	2,056	**3,692**	**(3,691)**	**0**
Net (increase)/decrease before transfers to Earmarked Reserves	857	0	**857**	(6,228)	0	(659)	2,056	**(3,974)**	**(49,944)**	**(53,918)**
Transfers to/(from) Earmarked Reserves (Note 9)	(937)	935	**(2)**	2	0	0	0	**(0)**	**0**	**(0)**
(Increase)/Decrease in year	(80)	935	**855**	(6,226)	0	(659)	2,056	**(3,974)**	**(49,944)**	**(53,918)**
Balance at 31 March 2017 carried forward	(4,540)	(16,289)	**(20,828)**	(12,953)	0	(6,323)	(4,580)	**(44,685)**	**(339,378)**	**(384,063)**

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 outflows have been made for resources which are intended to contribute to the Council's future service delivery.

2016/17 £'000		2017/18 £'000
(7,666)	Net (surplus) or deficit on the provision of services	5,907
	Adjust net surplus or deficit on the provision of services for non-cash movements	
(8,883)	Less depreciation of fixed assets	(10,220)
(1,987)	Less impairment of fixed assets	(11,312)
(61)	Movement in bad debt provision	(302)
(5,166)	Movement in revenue creditors	801
(1)	Movement in long term debtors	54
193	Movement in provisions	(460)
(1,075)	Movement in deposits	(1,889)
	Items on accruals basis (assets)	
1,658	Movement in revenue debtors	1,530
(119)	Movement in payments in advance	29
(20)	Movement in inventories	(3)
(6,533)	Net charges made for retirement benefits in accordance with IAS19	(7,116)
4,230	Fund and retirement benefits payable direct to pensioners	4,176
(3,571)	Carrying amount of non-current assets sold	(2,798)
(386)	Other non-cash items charged to the net surplus or deficit on the provision of services	(14)
(32)	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	44
(31)	Movements in the value of investment properties	235
1,540	Other revaluations to CIES	33
(44)	Movement in accrual on investments	4
19	Movement in deferred premiums less discounts	17
(500)	Movement in accrual on borrowing	(92)
(1,594)	Capital grants and capital income applied	460
1,842	Collection fund adjustment for CCC	232
530	REFCUS funded from reserves	8
(27,655)		**(20,676)**
	Adjust for items included in the net surplus or deficit on the provision of services that are investing activities	
5,581	Proceeds from the sale of property, plant and equipment	3,465
37	Council Tax receipts paid to major preceptors less receipts	886
(10,118)	NDR receipts under/over paid to the government	(5,006)
(4,500)		(654)
(32,155)	**Net flows from operating activities**	(21,330)

2016/17 £'000	Cash Flow continued	2017/18 £'000
(32,155)	Net flows from operating activities (b/f)	(21,330)
	Capital Activities	
	Cash outflows	
88,120	Purchase of property, plant and equipment, investment property and intangible assets	85,293
30,000	Purchase of investments	15,000
118,120		100,293
	Cash inflows	
(5,581)	Proceeds from sale of property, plant and equipment Investment property and intangible assets	(3,465)
1,594	Capital grants received	(460)
(11)	Capital debtors movement	603
(30,357)	Investments redeemed	(20,000)
(507)	Other receipts from investing activities (principal repayments of Soft Loans etc)	(180)
(34,861)		(23,503)
83,258	Net cash flow from capital activities	76,791
51,103	**Net cash inflow/outflow before financing**	55,461
	Financing activities	
	Cash inflows	
(79,000)	Cash receipts of long-term borrowing	(20,000)
0	Cash receipts of short-term borrowing	(25,000)
(79,000)		(45,000)
	Cash outflows	
0	Repayments of long-term borrowing	0
5,896	Repayments of short-term borrowing	7,193
5,896		7,193
	Other payments/receipts re financing activities:	
(37)	Council Tax receipts paid to major preceptors less receipts	(886)
10,118	NDR receipts under/over paid to the government	5,006
10,081		4,120
(63,024)	**Financing net cash flow**	**(33,687)**
(11,920)	**Net increase(-)/decrease in cash equivalents**	21,773
(20,766)	Cash and cash equivalents at 1 April (excl accruals)	(32,686)
(32,686)	Cash and cash equivalents at 31 March (excl accruals)	(10,914)

Expenditure and Funding Analysis for the year ended 31 March 2018

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. Details of the adjustments can be found in note 7.

2016/17				2017/18		
Net exp chargeable to the GF and HRA balances	Adjustments between the funding and accounting basis	Net exp in the CIES		Net exp chargeable to the GF and HRA balances	Adjustments between the funding and accounting basis	Net exp in the CIES
£'000	£'000	£'000		£'000	£'000	£'000
4,515	(2,645)	1,870	Corporate Management	7,058	(7,376)	(318)
3,202	1,300	4,502	Planning & Regeneration	3,171	1,548	4,719
1,585	249	1,834	Strategy & Democracy	1,444	428	1,872
424	(388)	36	Digital & IT Services	126	(64)	62
11,603	(844)	10,759	Commissioned Services	11,391	513	11,903
(536)	630	94	Direct Services	(161)	941	780
(1,710)	(755)	(2,465)	Resources	(5,295)	5,524	229
(6,226)	356	(5,870)	Housing Revenue Account	(21)	(3,014)	(3,035)
12,858	**(2,098)**	**10,760**	**Cost of Services**	**17,712**	**(1,500)**	**16,211**
			Other Operating Expenditure			
0	(3,550)	(3,550)	Loss/Gain on Sales of Assets	0	(700)	(700)
0	778	778	Parish Council Precepts & Drainage Board Levy	0	825	825
0	544	544	Housing Capital Receipts Cont to Govt Pool	0	539	539
			Financing & Investment Income & Expenditure			
0	4,750	4,750	Interest Payable on Debt	0	5,134	5,134
0	2,841	2,841	Net interest on the net defined benefit liability	0	2,292	2,292
0	(3,739)	(3,739)	Investment Interest Income	0	(376)	(376)
0	(250)	(250)	Investment properties income and expenditure	0	(250)	(250)
0	31	31	Change in fair value of investment properties	0	(235)	(235)
0	(13)	(13)	Surplus from Trading Operations	0	(42)	(42)
			Taxation & Non-Specific Grant Income & Expenditure			
0	1,594	1,594	Recognised Capital Grants & Contributions	0	(460)	(460)
(9,567)	(2,247)	(11,814)	Income from the Collection Fund	(9,977)	743	(9,234)
(9,598)	0	(9,598)	Non ring-fenced Government Grants	(7,796)	0	(7,796)
(19,165)	**739**	**(18,426)**	**Other Income and Expenditure**	**(17,773)**	**7,469**	**(10,304)**
(6,307)	**(1,359)**	**(7,666)**	**(Surplus)/Deficit on provision of services**	**(62)**	**5,969**	**5,907**
(11,187)			Opening General Fund and HRA balances	(17,493)		
(6,307)			(Surplus)/Deficit on General Fund and HRA bal	(62)		
0			Use of General Fund reserve	200		
(17,493)			**Closing General Fund and HRA balances**	**(17,355)**		

1. Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Authority's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18* and the *Service Reporting Code of Practice 2017/18,* supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts 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.

1.2 Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

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

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

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

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

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. An exception to this principle relates to electricity and similar utility costs. This policy is consistently applied each year and therefore does not have a material effect on the year’s accounts. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Council Tax and National Non-Domestic Rates

The Council is a billing authority and, as such, is required to bill local residents and businesses for council tax and national non-domestic (business) rates. The Council collects council tax on behalf of the major precepting authorities - Kent County Council, Kent Police and Crime Commissioner, and Kent Fire and Rescue Service. These accounts only show the amount owed to/from taxpayers in respect of council tax demanded by this Council. Amounts owing to/from taxpayers for council tax for major precepting authorities are shown as net debtors or creditors on the balance sheet.

The Council retains 40% of business rates with 50% paid into a national pool and 10% shared with Kent County Council and Kent Fire and Rescue Service. The amount retained by this Council is adjusted down through a tariff payment to the government. The accounts only show the amount owed to/from ratepayers in respect of business rates retained by this Council. Amounts of business rates in respect of the net amount of business rates received and paid over to the national pool and preceptors are shown as a net debtor or creditor.

The amounts shown as council tax/business rates in the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement represent the amounts due to this Council for the year. Where this includes an adjustment for the surplus/deficit to be taken into account in a future financial year, this adjustment is subsequently reversed within the Movement in Reserves Statement to the Collection Fund Adjustment Account.

Other material revenue streams

The Council has a number of other material revenue streams and the approach to recognition is set out for each one below.

Parking income – cash received through parking machines is accounted for on the day on which it is collected. Busy parking machines are emptied on a daily basis. All other parking income is accounted for on an accruals basis.

Income from property (including Whitefriars), Marlowe theatre ticket sales and Engineering Services is accounted for on an accruals basis as set out above.

Planning fee income – fees received are accounted for on a cash basis.

1.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty of notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than 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 Authority's cash management.

1.4 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.5 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.

1.6 Charges to Revenue for non-current (fixed) Assets

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

- Depreciation attributable to the assets used by the relevant service
- 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
- Amortisation of intangible assets attributable to the service.

The Authority is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make annual contribution from revenue towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision) by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.7 Employee Benefits

1.7.1 Benefits payable during employment

Short term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) 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 entitlements are charged to revenue in the financial year in which the holiday absence occurs.

1.7.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring.

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

1.7.3 Post-employment Benefits (Pension Costs)

Employees of the Authority are members of the Local Government Pensions Scheme, administered by Kent County Council.

The Local Government Scheme is accounted for as a defined benefits scheme.

The Liabilities of the Kent pension fund attributable to the Authority 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 projected earnings for current employees.

Liabilities are discounted to their value at current prices using a discount rate of 2.55% (based on the indicative rate of return on the Merrill Lynch AA rated corporate bond).

The assets of Kent pension fund attributable to the Authority are included in the Balance Sheet at their fair value:

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

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

i) Service cost comprising:

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

Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

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

iii) Re-measurement comprising

The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

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

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

1.7.4 Discretionary Benefit

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.8 Events after the Reporting Period

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 – the Statement of Accounts is adjusted to reflect such events.
- those that are indicative of conditions that arose after the reporting period – 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.

1.9 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.

1.10 Financial Instruments

1.10.1 Financial Liabilities

Financial Liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are 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. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

This means that the amount presented 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 according to the loan agreement.

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/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and 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 Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

1.10.2 Financial Assets (Investments)

Financial assets are classified into two types:

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

1.10.3 Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are 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 loans that the Authority has made, this means that the amount presented 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.

1.10.4 Soft Loans

The Authority has made a number of loans to voluntary organisations at less than market rates (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 instrument, 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 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 Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

1.11 Government Grants and Contributions

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

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

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 in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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 and Expenditure (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 Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

1.12 Intangible 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 (ie 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.

1.13 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.

1.14 Inventories

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

1.15 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 production of goods 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 by statutory arrangements 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.

1.16 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.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets (see 1.16.3).

1.16.1 The Authority as Lessee

i) Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Authority is not required to raise Council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

ii) 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, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

1.16.2 The Authority as Lessor

i) Finance Leases

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

Lease rentals receivable are apportioned between:

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

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve

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

ii) Operating leases

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

1.16.3 Embedded Leases

These are assets that although not owned by the Council are used primarily by the Authority for service provision. Examples are vehicles used by the Council's grounds and waste contractors. In these cases estimated values for the vehicles have been used along with a leased term in line with the contract period. Assets are recognised in the balance sheet at the net book value and offset by a deferred liability. The lease charge forms part of the contract payment on behalf of these vehicles on a straight-line basis over the life of the asset. These assets are depreciated in line with our normal capital policy.

1.17 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received.

1.18 Property, Plant and Equipment

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

1.18.1 Recognition

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 Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

1.18.2 Measurement

Assets are initially measured at cost, comprising:

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

Assets are then carried in the Balance Sheet using the following measurement bases:

- community assets and assets under construction – depreciated historical cost or historical cost. If historical cost information is not available current cost discounted back to date of acquisition, using retail price index.
- council dwellings – existing use value, determined using the basis of existing use value for social housing (EUV-SH)
- investment properties and assets held for sale - fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).
- all other assets – existing use value where there is sufficient evidence of transactions for that use, or depreciated replacement cost (DRC) is used as an estimate of fair value for assets of a specialist nature.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current 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.

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.

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down first against any relevant balance in the reserve, and then against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

1.18.3 Impairment

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

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

1.18.4 Depreciation

Depreciation is provided for on all 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 Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- dwellings, infrastructure and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer (as long as the amount involved is material).

Where an 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 on straight-line allocation over the useful life of the component.

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.

1.18.5 Disposals and non-current Assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) 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 accumulated 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. 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 Authority's underlying need to borrow (the capital financial 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 non-current 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.

1.18.6 Heritage Assets

The Council owns a large number of heritage assets which have either been donated to or purchased by the Council, 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.

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. (See note 10.1)

1.19 Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

1.20 Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. 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 that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the

General Fund Balance in the Movement in Reserves Statement, so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

1.21 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority 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 that there is no impact on the level of council tax.

1.22 VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

2 Accounting Standards that have been issued but have not yet been adopted

There are no significant changes to International Financial Reporting Standards that have not yet been adopted.

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 set out below.

a) 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 retained earnings of £685,000, plus a significant loss for their pension deficit of £10,081,000. 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 £685,000) 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 not recognised in the accounts. Consequently, in our opinion, under IAS37 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. Details of the related party transactions are provided within this document.

   If EKH was unable to meet its obligations for pension payments, its services would be taken back in-house by the four partner authorities and any pension liability would be combined with each Council’s pension liability.

b) 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.

c) The Council entered into major contracts in 2013/14 for waste collection, grounds maintenance and park and ride services. The Council has reviewed the use of the non-current assets used by the contractors in order to deliver the contracts to establish the type of lease arrangement that covers their use. The waste and grounds maintenance contract is judged to include a finance lease, therefore the assets and a long term creditor equal to the value of the assets are included on the balance sheet. The assets will be depreciated over the life of the contract and the long term creditor written down over the same period. The non-current assets used to deliver the park and ride contract have a useful life significantly greater than the duration of the contract and so this contract is deemed to include an operating lease for which there are no further accounting adjustments required.

d) The Council owns several properties that are classified as specialised as being a property that is rarely, if ever, sold in the market, except by way of a sale of the business or entity of which it is part, due to the uniqueness arising from its specialised nature and design, its configuration, size, location or otherwise. Property services value these non-current assets on a depreciated replacement cost basis as to value them on any other basis would be extremely difficult and would invariably lead to unrealistically low values.

e) The result of the EU referendum was a vote to leave the European Union. This decision could have an impact on the Council's future financial position but at this stage is it not possible to assess what that impact might be, however it is not considered necessary to require any change to the financial position reported.

f) During 2017/18 the Council purchased the remaining half interest in the Whitefriars shopping centre. Given that the Council now owns 100% of the centre for long term regeneration purposes, it has decided to classify the asset as a non-current property asset rather than as a financial instrument. This better reflects the Council's intentions to retain this property for the long term for regeneration purposes.

g) In February 2018, this Council, together with Dover and Thanet district councils, entered into a contract with Civica UK Ltd. As part of the contractual arrangements with Civica, the councils have agreed to a cap and collar arrangement whereby the councils meet annual pension costs above the cap value but receive the benefit if pension costs fall below the collar value. The councils have also jointly agreed to act as a guarantor to Civica to enable it to become an admitted body in the Kent Pension Fund. Staff were transferred to Civica on a 100% funded basis. Given the short time period between the date of transfer and the year end, it is considered very unlikely that there has been a significant change to the funding level for the transferred staff. Therefore, for the 2017/18 accounts the Council has decided not to reflect this arrangement in its statement of accounts.

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 Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pension 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 £3m. Changes to financial assumptions in 2017/18 have led to a decrease in the net liability of £1.5m.

Business Rate Appeals	The Council has a significant number of outstanding appeals against the Valuation Office (VOA) rating list. These can take several years to be heard and the outcome is difficult to estimate. Historical data has been used as the best estimate on which to base the provision for the outcome of the appeals. Due to ongoing work in preparation for the 2017 revaluation, the VOA made little progress in resolving appeals in 2015/16 and 2016/17. This has increased the value of outstanding appeals.	If the outcome of appeals is a reduction in the rateable value above that which has been provided then the NNDR collection fund would incur the additional cost of the appeals and there would be an ongoing reduction in the NNDR yield up to 31 March 2018.
Fair value measurements	When the fair values of investment properties, surplus assets, assets available for sale and assets held for sale cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using the following valuation techniques: 1. For Level 2 inputs, quoted prices for similar assets or liabilities in active markets at the balance sheet date; 2. For level 3 inputs, valuations based on most recent valuations adjusted to current valuation by the use of indexation and impairment review. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible, judgment is required in establishing fair values. These judgments typically include considerations such as uncertainty and risk. Changes in assumptions used could affect the fair value of the Council's assets and liabilities. Where Level 1 inputs are not available, the authority's internal RICS qualified valuers identify the most appropriate valuation techniques to determine fair value. All valuations are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council's valuation team work closely with finance officers reporting directly to the chief financial officer on a regular basis regarding all valuation matters.	The Council uses combination of indexation techniques, beacon valuations and discounted cash flow (DCF) models to measure the fair value of its Investment Properties, Surplus Assets and Assets Held for Sale under IFRS13 depending on which technique it considers most appropriate. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, occupancy levels, floor area repairs backlogs, beacon classifications and others. Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for these assets. The most significant single asset is the Council's 100% stake in the Whitefriars Shopping Centre. This is valued using Level 2 inputs. A one percent variation would lead to a change in value of £1.51m.

Bad debt provisions	The Council has bad debt provisions of £3.433m for income relating to the HRA, benefit overpayments, council tax, NNDR and other general debtors. The provisions are based on previous history of collection rates based on aged debt analysis. However, future payment patterns could differ from historical trends.	The actual level of bad debts could be better or worse than the provision, leading to a need to increase or reduce it. Collection rates are monitored closely to allow early identification of changes to trends in payment patterns.

5 Events after the Reporting Period

The Statement of Accounts was authorised for issue by the Deputy Chief Executive by 31 May 2018. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

6 Adjustments between Accounting Basis and Funding Basis under Regulations

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

The following sets out a description of the reserves that the adjustments are made against.

6.1 General Fund Balance

The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year. However the balance is not available to be applied to funding HRA services.

6.2 Housing Revenue Account Balance

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

6.3 Major Repairs Reserve

The Authority is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

6.4 Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

6.5 Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

Accounting and Funding basis adjustments 2017/18	Usable Reserves						Movement in Unusable Reserves
	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Major Repair Reserve	Capital Receipts Reserve	Capital Grants Unapplied	
	£'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							
Charges for Depreciation and impairment of non-current assets	(6,248)		(3,973)				10,220
Revaluation on Property, Plant & Equipment	(5,180)		(6,132)				11,312
Movement in market value of investment property	235						(235)
Capital grant and contributions applied	115		536				(652)
Revenue Expenditure funded from Capital under Statute	(1,342)						1,342
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(182)		(2,583)				2,765
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement							
Statutory provision for the financing of capital investment	4,614						(4,614)
Capital expenditure charged against GF & HRA balances	3,034		4,735				(7,769)
Adjustments primarily involving the Capital Grants Unapplied Account							
Capital grants and contributions unapplied credited to CIES	(1,162)					1,162	0
Capital grants and contributions unapplied	971					(971)	0
Adjustments primarily involving the Capital Receipts Reserve (CRR)							
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	306		3,159		(3,465)		0
Use of CRR to finance capital expenditure					1,625		(1,625)
Contribution from CRR to finance payments to the Government capital receipts pool	(539)				539		0
Transfer from deferred CRR upon receipt of cash					0		0
Repayments of soft loans and Hsg Act advances					(78)		78
Adjustments primarily involving the Major Repairs Reserve							
Reversal of Major Repairs Allowance credited to the HRA			3,973	(3,973)			0
Use of the Major Repairs Reserve to finance new capital expenditure				5,633			(5,633)
Voluntary transfer to Major Repairs Reserve			1,661	(1,661)			0
Adjustments involving the Financial Instruments Adjustment Account							
Amount by which finance costs charged to CIES are different from finance costs chargeable in year in accordance with statutory requirements	51		(7)				(44)
Adjustments involving the Pension Reserve							
Reversal of items relating to retirement benefits debited or credited to CIES	(6,882)		(234)				7,116
Employers contributions and direct payments to pensioners payable in year.	3,909		267				(4,176)
Adjustments involving Collection Fund Adjustment Account							
Amount by which council tax and NDR income adjustment included in CIES is different to the amount calculated for the year in accordance with statutory guidance	(1,442)						1,442
Adjustments involving Accumulated Absences Account							
Amount by which officer remuneration charged to the CIES on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements							0
Total Adjustments 2017/18	(9,743)	0	1,404	0	(1,381)	191	9,529

Accounting and Funding basis adjustments 2016/17	Usable Reserves						
	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							
Charges for Depreciation and impairment of non-current assets	(4,984)		(3,899)				8,883
Revaluation on Property, Plant & Equipment	1,879		(3,866)				1,987
Movement in market value of investment property	(31)		0				31
Capital grant and contributions applied	462		0				(462)
Revenue Expenditure funded from Capital under Statute	(479)		0				479
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(2,125)		(1,446)				3,571
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement							
Statutory provision for the financing of capital investment	3,395		0				(3,395)
Capital expenditure charged against GF & HRA balances	3,103		4,580				(7,683)
Adjustments primarily involving the Capital Grants Unapplied Account							
Capital grants and contributions unapplied credited to CIES	(2,657)		0			2,657	0
Capital grants and contributions unapplied	601		0			(601)	0
Adjustments primarily involving the Capital Receipts Reserve (CRR)							
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	4,053		3,068		(5,581)		(1,540)
Use of CRR to finance capital expenditure					4,463		(4,463)
Contribution from CRR to finance payments to the Government capital receipts pool	(544)				544		0
Transfer from deferred CRR upon receipt of cash							0
Repayments of soft loans and Hsg Act advances					(85)		85
Adjustments primarily involving the Major Repairs Reserve							
Reversal of Major Repairs Allowance credited to the HRA			3,899	(3,899)			0
Use of the Major Repairs Reserve to finance new capital expenditure				236			(236)
Voluntary transfer to Major Repairs Reserve			(3,663)	3,663			0
Adjustments involving the Financial Instruments Adjustment Account							
Amount by which finance costs charged to CIES are different from finance costs chargeable in year in accordance with statutory requirements	20		(7)				(13)
Adjustments involving the Pension Reserve							
Reversal of items relating to retirement benefits debited or credited to CIES	(6,309)		(224)				6,533
Employers contributions and direct payments to pensioners payable in year.	3,955		275				(4,230)
Adjustments involving Collection Fund Adjustment Account							
Amount by which council tax and NDR income adjustment included in CIES is different to the amount calculated for the year in accordance with statutory guidance	3,242		0				(3,242)
Adjustments involving Accumulated Absences Account							
Amount by which officer remuneration charged to the CIES on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements	(4)		(0)				4
Total Adjustments 2016/17	3,578	0	(1,284)	(0)	(658)	2,056	(3,692)

7 Note to the expenditure and funding analysis

Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts:

2016/17					2017/18			
Adjustments for capital purposes	Net change for the pensions adjustments	Other differences	Total adjustments		Adjustments for capital purposes	Net change for the pensions adjustments	Other differences	Total adjustments
£'000	**£'000**	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**	**£'000**
(1,179)	(1,961)	494	(2,645)	Corporate Management	(1,700)	(1,924)	(3,752)	(7,376)
423	341	536	1,300	Planning & Regeneration	1,040	546	(38)	1,548
53	120	76	249	Strategy & Democracy	0	174	254	428
0	0	(388)	(388)	Digital & IT Services	0	0	(64)	(64)
(1,247)	539	(136)	(844)	Commissioned Services	(575)	940	148	513
271	527	(168)	630	Direct Services	139	880	(79)	941
(374)	76	(456)	(755)	Resources	5,922	162	(561)	5,524
3,866	(180)	(3,330)	356	Housing Revenue Account	6,132	(131)	(9,016)	(3,014)
1,813	**(538)**	**(3,373)**	**(2,098)**	**Cost of Services**	**10,959**	**648**	**(13,107)**	**(1,500)**
				Other Operating Expenditure				
(3,550)	0	0	(3,550)	Loss/Gain on Sales of Assets	(700)	0	0	(700)
0	0	778	778	Parish Council Precepts & Drainage Board Levy	0	0	825	825
544	0	0	544	Housing Capital Receipts Cont to Govt Pool	539	0	0	539
				Financing & Investment Income & Expenditure				
2,772	0	1,978	4,750	Interest Payable on Debt	3,333	0	1,801	5,134
0	2,841	0	2,841	Net interest on the net defined benefit liability	0	2,292	0	2,292
0	0	(3,739)	(3,739)	Investment Interest Income	0	0	(376)	(376)
0	0	(250)	(250)	Investment properties income and expenditure	0	0	(250)	(250)
31	0	0	31	Change in fair value of investment properties	(235)	0	0	(235)
0	0	(13)	(13)	Surplus from Trading Operations	0	0	(42)	(42)
				Taxation & Non-Specific Grant Income & Expenditure				
1,594	0	0	1,594	Recognised Capital Grants & Contributions	(460)	0	0	(460)
0	0	(2,247)	(2,247)	Income from the Collection Fund	0	0	743	743
0	0	0	0	Non ring-fenced Government Grants	0	0	0	0
			(1,359)	**Difference between surplus or deficit and the Comprehensive Income and Expenditure Statement surplus or deficit on the provision of services**				**5,969**

8 Expenditure and income analysed by nature

The authority's expenditure and income is analysed as follows:

2016/17		2017/18										
		Corporate Management	Planning & Regen	Strategy & Democracy	Digital & IT Services	Commissioned Services	Direct Services	Resources	HRA	Net Cost of Services	Sources of Finance	Total
£'000		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	Expenditure											
22,619	Employee benefits expenses	1,086	3,615	2,003	324	6,173	6,161	3,393	190	**22,944**	2,326	**25,270**
54,973	Other service expenses	(1,225)	3,124	920	804	18,796	6,008	11,341	16,112	**55,881**	1,877	**57,758**
(831)	Support service recharges	622	972	(598)	(1,240)	873	786	(2,930)	614	**(901)**	20	**(881)**
46,362	Housing benefit payments	0	0	0	0	0	782	44,107	0	**44,888**	0	**44,888**
12,753	Depreciation, amortisation, impairment	2	46	0	246	2,263	1,285	2,405	6,695	**12,943**	0	**12,943**
2,719	Interest payments	0	0	0	0	0	0	0	0	**0**	3,180	**3,180**
778	Precepts and levies	0	0	0	0	0	0	0	0	**0**	825	**825**
544	Payments to Housing Capital Receipts Pool	0	0	0	0	0	0	0	0	**0**	539	**539**
(3,550)	Gain on the disposal of assets	0	0	0	0	0	0	0	0	**0**	(700)	**(700)**
136,368	**Total Expenditure**	**486**	**7,757**	**2,325**	**134**	**28,106**	**15,022**	**58,315**	**23,611**	**135,755**	**8,067**	**143,822**
	Income											
(68,320)	Fees, charges and other service income	(282)	(1,972)	(108)	(14)	(14,444)	(12,312)	(11,795)	(26,410)	**(67,337)**	(3,147)	**(70,484)**
(1,492)	Interest and investment income	0	0	0	0	0	0	0	0	**0**	(90)	**(90)**
(13,214)	Income from council tax & non-domestic rates	0	0	0	0	0	0	0	0	**0**	(9,002)	**(9,002)**
(61,008)	Government grants and contributions	(522)	(1,066)	(345)	(57)	(1,758)	(1,930)	(46,292)	(236)	**(52,207)**	(6,131)	**(58,338)**
(144,033)	**Total Income**	**(804)**	**(3,038)**	**(453)**	**(71)**	**(16,202)**	**(14,242)**	**(58,086)**	**(26,646)**	**(119,544)**	**(18,371)**	**(137,915)**
(7,666)	**Surplus/Deficit on the provision of services**	**(318)**	**4,719**	**1,872**	**62**	**11,903**	**780**	**229**	**(3,035)**	**16,211**	**(10,304)**	**5,907**

9 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 2017/18.

Reserve	Note	Balance at 1 April 2016 £'000	Transfers to reserve £'000	Transfers from reserve £'000	Balance at 31 March 2017 £'000	Transfers to reserve £'000	Transfers from reserve £'000	Balance at 31 March 2018 £'000
Computer/equipment	a	(719)	(513)	270	(962)	(154)	557	(559)
Buildings maintenance	b	(684)	(146)	0	(830)	(136)	44	(922)
Whitefriars unit trust reserve	c	0	(1,007)	0	(1,007)	(1,199)	200	(2,005)
Restructure reserve	d	(819)	(200)	0	(1,019)	(150)	674	(495)
Open spaces maintenance	e	(908)	0	41	(867)	0	36	(832)
Budget stabilisation reserve	f	(1,298)	0	300	(998)	0	150	(848)
Carry forward reserve	g	(1,021)	(451)	696	(776)	(403)	387	(793)
Whitstable Harbour reserves	h	(1,254)	(149)	38	(1,365)	(220)	243	(1,342)
Waste reserve	i	(510)	(150)	82	(578)	0	0	(578)
NDR reserve	j	(3,557)	(1,293)	3,022	(1,828)	(3,070)	530	(4,368)
Capital reserve	k	(451)	(2,608)	3,059	(0)	(2,150)	2,150	(0)
Other General Fund reserves		(5,294)	(1,427)	1,374	(5,347)	(922)	1,166	(5,103)
Total of Reserves		(16,514)	(7,945)	8,882	(15,577)	(8,402)	6,135	(17,845)
Net Transfer - General Fund					937			(2,268)
HRA Reserves (excl major repairs reserve)								
Subsidence and other reserves	h1	(709)	(2)	0	(711)	(302)	0	(1,013)
Total HRA Reserves		(709)	(2)	0	(711)	(302)	0	(1,013)
Net Transfer - HRA					(2)			(302)
Total Reserves		**(17,224)**	**(7,947)**	**8,882**	**(16,289)**	**(8,705)**	**6,135**	**(18,858)**

Earmarked Reserves

a) The computer/equipment reserve was created in 1995/96 to finance computers and equipment which need replacing.

b) The Buildings maintenance reserve is used to finance major repairs to council buildings.

c) The Whitefriars unit trust reserve is used to smooth the cost of landlord incentives across financial years.

d) The restructure reserve used to cover restructure costs.

e) The open spaces maintenance reserve holds the balance from commuted payments from developers (under section 106 agreements) based on 20 years maintenance cost of spaces taken over by the Council. The balance for each development is transferred to revenue over 20 years.

f) The budget stabilisation is in place to support the revenue budget over future years and to cover any impairment on investments.

g) The carry forward reserve is used to carry forward approved allocations to the next financial year to fund specific items or projects.

h) The Whitstable Harbour reserves hold any surpluses from the ring-fenced account to spend on the Harbour in future years including quay maintenance.

i) The waste reserve is used to smooth grant funding received over the life of the current contract and to fund preparatory work in advance of the next contract period.

j) The NDR reserve has been created to allocate grant funding received in the current year that is required to fund the NDR collection fund costs accounted for in future financial years.

k) The capital reserve has been established to facilitate revenue contributions towards funding of the capital programme.

h1) The HRA reserve consist mainly of a subsidence reserve 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.

Other General Fund Reserves consists of a number of reserves with balances of less than £500,000, which have been earmarked for a range of different purposes such as insurance, election costs, car park investments, and the local plan.

10 Property plant and equipment, investment properties and intangible assets

Following the introduction of capital accounting, plant, property and equipment (PPE) are valued using the basis set out in note 10.4 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. The summary of the movement in these assets during the year are listed in the two tables below.

	Council Dwellings	Land and Buildings	Plant, Vehicles & Equipment	Infrastructure	Community Assets	Assets Under Construction	Total Tangible assets	Investment Properties	Assets Held For Sale	Heritage Assets	Intangible Assets	Total
Cost or Valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 April 2017 (b/fwd)	311,984	193,921	16,936	41,421	1,495	0	565,757	4,310	212	12,899	475	583,654
Additions	4,058	155,336	1,251	204	0	1,217	162,066	0	0	10	0	162,076
Disposals	(2,583)	0	(62)	0	0	0	(2,644)	0	(212)	0	(34)	(2,890)
Acc Dep'n w/o	0	(3,153)	0	0	0	0	(3,153)	0	0	(16)	0	(3,169)
Reclassifications/Transfers	0	4	0	0	(4)	0	0	0	0	0	0	0
Revaluations to Revaluation Reserve	9,016	3,215	0	0	0	0	12,231	0	0	(148)	0	12,083
Revaluations to CIES	(2,723)	(5,126)	0	0	0	(117)	(7,965)	235	0	0	0	(7,730)
Other movements in Cost or Valuation	0	0	4	0	0	0	4	0	0	0	0	4
At 31 March 2018	319,752	344,197	18,129	41,625	1,491	1,100	726,295	4,545	0	12,746	441	744,028
Depreciation and impairment												
At 1 April 2017 (b/fwd)	(3,824)	(3,377)	(10,956)	(20,389)	(23)	0	(38,569)	0	0	0	(475)	(39,044)
Charge for 2017/18	(3,897)	(3,823)	(1,647)	(836)	(1)	0	(10,204)	0	0	(16)	0	(10,220)
Disposals	0	0	59	0	0	0	59	0	0	0	34	92
Acc Dep'n w/o	3,824	3,153	0	0	0	0	6,977	0	0	16	0	6,993
Reclassifications	0	0	0	0	0	0	0	0	0	0	0	0
Impairments to CIES	0	0	0	0	0	0	0	0	0	0	0	0
At 31 March 2018	(3,897)	(4,047)	(12,545)	(21,225)	(24)	0	(41,738)	0	0	0	(441)	(42,179)
Net Book Value at 31 March 2018	315,855	340,150	5,584	20,400	1,467	1,100	684,557	4,545	0	12,746	0	701,849

10 Property plant and equipment, investment properties and intangible assets

Cost or Valuation	Council Dwellings £'000	Land and Buildings £'000	Plant, Vehicles & Equipment £'000	Infrastructure £'000	Community Assets £'000	Total Tangible assets £'000	Investment Properties £'000	Assets Held For Sale £'000	Heritage Assets £'000	Intangible Assets £'000	Total £'000
At 1 April 2016 (b/fwd)	272,065	185,701	16,092	41,421	1,504	516,783	4,341	2,270	13,007	475	536,876
Additions	3,178	716	962	0	0	4,855	0	0	20	0	4,875
Disposals	(1,446)	0	(118)	0	0	(1,565)	0	(2,125)	0	0	(3,690)
Acc Dep'n w/o	0	(2,105)	0	0	0	(2,105)	0	0	(17)	0	(2,122)
Reclassifications/Transfers	0	(67)	0	0	0	(67)	0	67	0	0	0
Revaluations to Revaluation Reserve	38,188	7,779	0	0	0	45,968	0	0	(110)	0	45,857
Revaluations to CIES	0	1,899	0	0	(12)	1,887	0	0	0	0	1,887
Other movements in Cost or Valuation	0	(2)	0	0	2	0	(31)	0	0	0	(31)
At 31 March 2017	311,984	193,921	16,936	41,421	1,495	565,757	4,310	212	12,899	475	583,654
Depreciation and impairment											
At 1 April 2016 (b/fwd)	(3,442)	(2,887)	(9,494)	(19,546)	(21)	(35,390)	0	0	0	(454)	(35,843)
Charge for 2016/17	(3,824)	(2,595)	(1,581)	(844)	(1)	(8,845)	0	0	(17)	(21)	(8,883)
Disposals	0	0	118	0	0	118	0	0	0	0	118
Acc Dep'n w/o	3,442	2,105	0	0	0	5,547	0	0	17	0	5,564
Reclassifications	0	0	0	0	0	0	0	0	0	0	0
Impairments to CIES	0	0	0	0	0	0	0	0	0	0	0
At 31 March 2017	(3,824)	(3,377)	(10,956)	(20,389)	(23)	(38,569)	0	0	0	(475)	(39,044)
Net Book Value at 31 March 2017	308,160	190,544	5,979	21,031	1,472	527,188	4,310	212	12,899	0	544,610

10.1 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'.

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.

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. The Council does not hold information on the cost or value of these assets and it is considered that the cost of obtaining this information outweighs the benefit to the reader of the accounts.

Heritage Asset	Location
Roper Gateway, St Dunstans Street	Canterbury
Jesuit Chapel (Hales Place Chapel Trust)	Canterbury
Black Princes Chantry Wall	Canterbury
City Walls	Canterbury
Dane John Mound	Canterbury
St George's Clocktower	Canterbury
St Mary Magdalene Clocktower	Canterbury
1st and 2nd World War Memorials	Various
Boer War Memorial, Dane John	Canterbury
Kent Yeomanry War Memorial, Nasons	Canterbury
Whitstable War Memorial	Whitstable
Memorial to Kentish Martyrs	Canterbury

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 in the reconciliation below.

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

Museum contents and other artefacts

The museums service is managed within the Commissioned Services service area, and a small team look after and preserve the exhibits.

The service operated three museums within the district during 2017/18. An independent group has been established in Herne Bay to take on the management of the museums on the council’s behalf and plans are progressing for a similar arrangement for Whitstable Museum.

The art in the museums were last valued in 2006 by Sotheby's for insurance purposes at £7,100,000. This is reviewed annually and the current valuation is £7,075,000. Other museum exhibits are valued for insurance purposes at £841,000 and various civic and public art commissions are valued at £670,000 giving an overall total of £9,627,000 which also includes Tower House and Van Dyck paintings, but excludes exhibitions on loan to the Council.

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.

Reconciliation of the carrying value of Heritage Assets Held by the Authority

At 31 March 2017 £'000	£'000	Asset	At 31 March 2018 £'000	£'000
840		Museum Exhibits	841	
8,786		Public Art and Painting Collection	8,786	
	9,627	**Museum contents and artefacts**		**9,627**
972		Roman Site Butchery Lane	972	
30		Canterbury Castle	30	
161		Littlebourne Barn	161	
489		Central Parade Clock Tower	489	
1,621		Westgate Towers	1,468	
	3,273	**Land and Buildings**		**3,119**
	12,899	**Total**		**12,747**

10.2 Assets held for sale

31 March 2017 £'000		Transfers £'000	Assets sold £'000	31 March 2018 £'000
212	Other properties	0	(212)	0
212		**0**	**(212)**	**0**

10.3 Depreciation

Depreciation is provided for PPE 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 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 five years.

A revised depreciation charge using component accounting was implemented for the HRA in 2010/11 and has been implemented for major properties only for the General Fund from 2011/12.

10.4 Revaluations

The Council carries out a rolling programme of revaluations that ensures that all property, highways, infrastructure assets, plant and equipment required to be measured at current value is re-valued at least every five years. Investment properties, surplus properties and assets held for sale are re-valued every year, as are all assets with a capital value of over £400,000. Revaluations for 2017/18 were carried out internally.

Assets category	Date of last valuation	Basis of valuation	Valuer
Council dwellings	March 2018	A	David Kemp, MRICS
Other land and buildings	April 2017–March 2018	B	David Kemp, MRICS
Surplus assets	March 2018	C	David Kemp, MRICS
Investment properties	March 2018	C	David Kemp, MRICS
Highways infrastructure	March 2018	B	John Davison, IEng, MICE
Assets held for sale	March 2018	C	David Kemp, MRICS

Basis of valuation

A Current Value - Existing Use Value – Social Housing for social housing but discounted to allow for the tenanted use of property as social housing with 'right to buy valuations'

B a) Current Value - Existing Use Value 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 Fair value

Valuation techniques used to determine level 2 fair values for investment properties

The fair value of retail assets have been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that the level of observable inputs is significant leading to the property being categorised at Level 2 in the fair value hierarchy (see Note 4 for an explanation of the fair value levels).

Highest and Best Use of Investment Properties

In estimating the fair value of the authority's investment property, the highest and best use is the current use.

There has been no change in the valuation techniques used during the year for investment property.

11 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. The 2016/17 position has been restated to update the position for soft loan repayments for previous years. 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.

2016/17 Restated £'000	Capital Expenditure and Financing	2017/18 £'000
132,952	**Opening Capital Financing Requirement**	**204,399**
	Capital Expenditure in year:	
8,458	Property, plant and equipment	86,312
78,884	Assets available for sale	0
287	Embedded Lease addition	230
2,935	Revenue expenditure funded from capital under statute see note 11.1	3,144
90,565		89,686
(4,543)	**HRA loan repayment**	(4,732)
	Sources of Finance	
(4,463)	Capital receipts	(1,625)
(460)	Loan repayments	(105)
(2,377)	Government grants and other contributions	(2,446)
(3,880)	Revenue and Reserves	(8,675)
(3,395)	Revenue and provision for repayment of loans (MRP)	(4,614)
(14,575)		(17,465)
204,399	**Closing Capital Financing Requirement**	**271,888**
	Explanation of movements in year	
(4,543)	HRA loan repayment	(4,732)
(3,395)	MRP	(4,614)
(460)	Soft loan repayments	(105)
79,845	Increase in underlying need to borrow (unsupported by government financial assistance).	76,941
71,448	**Movement of Capital Financing Requirement**	**67,489**

11.1 Revenue Expenditure Funded from Capital Under Statute (REFCUS)

This expenditure is recognised as revenue expenditure and any funding of it by grants recognised as revenue income.

2016/17 Net Exp £'000		2017/18 Gross Exp £'000	Gov Grant £'000	Other Contr £'000	Net Exp £'000
0	Disabled facilities and improvement grants	968	(968)	0	0
490	Other including parish council grants	2,175	0	(834)	1,342
490	Total	**3,144**	**(968)**	**(834)**	**1,342**

The financing of this expenditure was, grants and contributions of £1,794k and reserve funding of £8k. Adding the £1,794k to the £652k non REFCUS grant funded capital expenditure reconciles to the total capital grants applied to finance capital expenditure £2,446k (see table above).

12 Financial Instruments

12.1 Financial Instruments balance

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

31 March 2017 Long-term £'000	31 March 2017 Current £'000		31 March 2018 Long-term £'000	31 March 2018 Current £'000
		Borrowings		
(174,230)	(7,930)	Financial liabilities at amortised cost (including the £2,000k soft loan received from KCC)	(187,273)	(32,678)
0	0	Financial liabilities at fair value through profit and loss	0	0
(174,230)	**(7,930)**	**Total Borrowings**	**(187,273)**	**(32,678)**
		Creditors		
0	(8,854)	Financial liabilities at amortised cost (ie excluding statutory debts such as council tax) *	0	(10,686)
0	(426)	Payments in transit *	0	(1,562)
0	**(9,280)**	**Total Creditors**	**0**	**(12,248)**
		Investments		
0	10,011	Loans and receivables	0	5,015
0	78,750	Available-for-sale financial assets	0	0
0	**88,761**	**Total investments**	**0**	**5,015**
		Other current assets		
0	8,948	Loans and receivables (ie excluding statutory debts such as council tax) *	0	10,901
0	33,111	Cash and cash equivalents *	0	12,475
0	**42,059**	**Total other current assets**	**0**	**23,376**
		Soft loans		
3,714	0	Soft loans provided - see notes below	3,534	0
0	0	Mortgages	0	0
3,714	**0**	**Total Soft Loans**	**3,534**	**0**

31 March 2017	* Reconciliation to balance sheet	31 March 2018
(16,799)	Creditors per balance sheet	(17,001)
7,946	Less statutory debts	6,315
(8,854)	Financial liabilities at amortised cost as above	(10,686)
7,994	Debtors per balance sheet	9,783
3,088	Impairment of debt	3,433
(2,134)	Less statutory debt	(2,315)
8,948	Loans and receivables as above	10,901
33,111	Cash and cash equivalents	12,475
(426)	Payments in transit	(1,562)
32,685	Cash and cash equivalents per balance sheet	10,914

The Council has made a number of loans to community and amateur sports organisations at less than market rates (soft loans). The original totalling £5.19m dates back to 2008. The largest being to Kent County Cricket Club for £4m with an outstanding balance as at 31 March 2018 of £3.09m, with a total loan balance outstanding of £3.53m

When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure (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 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. Where the interest rate charged is equal to or above the council's average rate of borrowing then there is an adjustment to the fair value to reflect a credit risk.

12.2 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 Instruments Gains & Losses

	Financial Liabilities (borrowing) Liabilities measured at amortised cost	Financial Assets (Investments) Loans and receivables	Total
	£'000	£'000	£'000
Interest payable and similar charges			
Interest payable	5,134	0	5,134
Impairment of financial assets	0	0	0
Total	**5,134**	**0**	**5,134**
Interest and investment income			
Interest income (received)	0	(409)	(409)
Interest income (impaired)	0	0	0
Total	**0**	**(409)**	**(409)**
Net (gain)/loss for the year	**5,134**	**(409)**	**4,725**

12.3 Value of financial assets and liabilities

Carried at fair value

Available for sale assets are measured at fair value on a recurring basis. The valuation technique used to measure fair value was primarily derived using comparable recent market transactions on arm's length terms (Input level 2 in the fair value hierarchy).

Financial assets (Available for Sale) measured at fair value

	As at 31/03/2017	As at 31/03/2018
	£'000	£'000
Equity in Whitefriars Canterbury Unit Trust	78,750	0
Total	**78,750**	**0**

During 2017/18 the remaining investment of the Whitefriars shopping centre was purchased, and the full asset was reclassified as a land and buildings asset on the grounds of faithful representation.

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 2018 were between 1.74% and 2.66% 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 Arlingclose our treasury advisors;

31 March 2017 Carrying Amount £'000	31 March 2017 Fair Value £'000		31 March 2018 Carrying Amount £'000	31 March 2018 Fair Value £'000
		Long term borrowing		
172,229	200,691	Financial Liabilities PWLB loans	185,271	207,743
2,002	2,088	Financial Liabilities - Other bonds and mortgages	2,002	2,034
		Short term borrowing		
7,193	7,893	Financial Liabilities - temporary loans	31,849	32,253

The fair value is higher than the carrying amount because the council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the balance sheet date including three old loans totalling £2.5m with rates of 7.625%, 10.25% and 10.5% which account for a fair value of £3,566k higher than the carrying amount. Further, the commitment to pay interest above current market rates on the other loans increases the amount that the authority would have to pay if the lender requested or agreed to early repayments of the loans.

31 March 2017 Carrying Amount £'000	31 March 2017 Fair Value £'000		31 March 2018 Carrying Amount £'000	31 March 2018 Fair Value £'000
		Investments		
10,011	10,018	Loans and receivables - banks and building societies	5,015	5,017
10,011	**10,018**		**5,015**	**5,017**

The fair value is slightly higher than the carrying amount because the authority's portfolio of investments includes 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 12.1. The fair value of these is equivalent to the nominal value as they are short term liquid assets.

12.4 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.

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 reviewed throughout the year, 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.

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 £1 million and £10 million. The strategy for 2017/18 was agreed by Council on 21 February 2017 and is available on the Council's website.

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 6 months. The long term debts are due for repayment in accordance with the loan agreements.

Refinancing and Maturity Risk

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

However £106.3m 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 2017 £'000	Source of Loan	Range of interest rates payable %	31 March 2018 £'000
172,229	Public Works Loan Board	2.00 - 10.50	185,271
2,002	Other bonds and mortgages	2.00 - 5.625	2,002
174,230	Total Long term borrowing		**187,273**
	Analysis of loans by maturity is:		
6,675	Maturing in 1-2 years		7,852
23,276	Maturing in 2-5 years		25,315
44,919	Maturing in 5-10 years		47,712
99,361	Maturing in over 10 years		106,394
174,230	Total Long term borrowing		**187,273**

Market Risk

Interest rate risk

The Council is exposed to significant risks in terms of its exposures 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, other than overnight deposits, and have thus mitigated much of this risk. 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 change and the refinancing of the shorter-date borrowings when they mature if rates should have risen by then. The risk to the authority of investing at a fixed rate is minimised by investing for maximum of one year.

General Fund Borrowing

£106.3m of the Council's borrowing is fixed at periods in excess of 10 years.

12.5 Investments

Carrying Amount at 31 March 2017	Investment type	Carrying amount: Nominal Value	Accrued Interest	Impair-ment	Total 31 March 2018	Fair Value at 31 March 2018
£'000	Internally Managed	£'000	£'000	£'000	£'000	£'000
10,011	Other Banks - fixed deposits	5,000	15	0	5,015	5,017
0	Other Accrued interest	0	0	0	0	0
10,011		**5,000**	**15**	**0**	**5,015**	**5,017**

The Council obtained £136,000 interest on its investments in 2017/18 (£198,000 in 2016/17) – an average interest rate of 0.25% (0.38% in 2016/17).

13 Long term debtors

Balance at 1 April 2017	Category	Advances	Repayments	Write-Offs	Balance at 31 March 2018
£'000		£'000	£'000	£'000	£'000
	Soft loans (Misc loans)				
3,714	Actual amount outstanding	0	(180)	0	3,534
(146)	Adjustments to fair value	0	61	0	(85)
3,568	**Soft loans - Fair value**	0	(119)	0	3,449
0	Mortgages	0	0	0	0
2	Housing Act Advances	0	0	0	2
186	East Kent Housing loan	0	0	0	186
222	Shared Service Reserves	0	(7)	0	215
3,978	**Total**	**0**	**(126)**	**0**	**3,851**

The balance for soft loans at 31 March 2018 of £3.534m has been reduced downwards by £85k (contra the Financial Instruments adjustment account) to a 'fair value' of £3.449m using a discounted cash flow calculation, to reflect the interest charged is below market rates or where interest is at the market rate a credit default risk of 1% has been used.

14 Short term debtors

31 March 2017	Category	31 March 2018
£'000		£'000
8,322	Other entities and individuals	11,398
1,681	Central government bodies	1,135
972	Other local authorities	675
107	Public Corps & Trading Funds	8
11,083	**Total**	**13,216**
	Impairment of debt	
(426)	Local tax payers	(469)
(548)	Housing	(641)
(1,701)	Benefits	(1,849)
(413)	Penalty charges notices & other provisions	(474)
(3,088)	**Total**	**(3,433)**
7,994	**Total short term debtors**	**9,783**

14.1 Age of Debt

An analysis of the age profile of trade debtors is given in the table below which form part of the debtors figures shown above.

31 March 2017 General £'000	31 March 2017 HRA £'000	31 March 2017 Total £'000	Age of Debt	31 March 2018 General £'000	31 March 2018 HRA £'000	31 March 2018 Total £'000
1,583	259	**1,842**	0 to 30 days	1,629	25	**1,654**
25	2	**28**	31 to 60 days	157	9	**166**
(3)	5	**2**	61 to 90 days	121	9	**130**
33	3	**36**	91 to 120 days	25	256	**281**
268	72	**340**	Over 120 days	133	108	**242**
1,906	**341**	**2,248**	**Total**	**2,065**	**407**	**2,472**

14.2 Collectability of debt

The Council does not generally allow credit for customers; however, it is prudent to establish a provision for non-payment of debt. This calculation is based upon the type and age of the debtor and allows a percentage for the expected failure of collection. The Council's potential maximum exposure to default or non-collection of the debt is shown as the provision balance as at 31 March in the impairment of debt table above.

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 2017 £'000	Balance (inc accruals)	31 March 2018 £'000
32,031	Bank overnight deposits	11,857
1,081	Cash in hand	618
33,111		12,475
(426)	Payments in transit	(1,562)
32,685		**10,914**

16 Creditors

31 March 2017 £'000	Category Sundry creditors	31 March 2018 £'000
(1,120)	Central government bodies	(1,089)
(8,918)	Other Local Authorities	(7,256)
(6,761)	Other entities & individuals	(8,656)
(16,799)	**Total**	**(17,001)**

16.1 Deposits and Receipts in Advance

The balance for deposits and receipts in advance of £6,842k is predominantly advance tickets sales for performances at the Marlowe Theatre of £3,561k (2016/17 total £4,952k of which £4,095k related to the Marlowe Theatre advance ticket sales).

17 Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and in notes 6 and 9 to the financial statements.

18 Unusable Reserves

Reserve	Balance at 1 April 2017 £'000	Net movement in year £'000	Balance 31 March 2018 £'000	Purpose of reserve
Revaluation Reserve	(196,736)	(15,363)	(212,100)	Store of gains on revaluation of fixed assets, not yet realised through sales see note 18.1 for details
Capital Adjustment Account	(228,788)	4,678	(224,111)	Store of capital resources set aside to meet past expenditure see note 18.2 for details
Financial Instrument Adjustment Account	452	(43)	409	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowing and investments.
Available for Sale assets reserve	134	(134)	0	Represents the price flucation of the available for sale assets as at 31 March.
Pensions Reserve	86,934	(1,548)	85,386	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet. See note 18.3 for details
Collection Fund Adjustment Account	(1,575)	1,442	(133)	Resources available to meet future precept payments re City Council share only
Short-term accumulating absences account	201	0	201	Represents accrual of holiday entitlement carried forward at year end
Total	**(339,378)**	**(10,969)**	**(350,347)**	

18.1 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.

31 March 2017 £'000	Category	General Fund £'000	Housing £'000	31 March 2018 £'000
(148,136)	Balance at 1 April	(55,880)	(140,856)	(196,736)
(46,996)	Upward revaluation of assets	(6,651)	(9,459)	(16,110)
1,134	Downward revaluation of assets and impairment losses not charged to Surplus/Deficit on provision of services	4,027	0	4,027
(45,862)		(2,624)	(9,459)	(12,083)
(3,442)	Depreciation written out on revaluations of PPE	0	(3,824)	(3,824)
(49,304)	(Surplus)/deficit on revaluation of assets not posted to the surplus or deficit on the provision of services per CIES.	(2,624)	(13,283)	(15,907)
	Transfers to Capital Adjustment Account (note 18.2)			
1,540	Write-out the revaluation gains previously recognised for assets disposed of in current year.	33	0	33
(47,764)	**(Surplus)/defict on revaluation of PPE**	(2,591)	(13,283)	(15,874)
(837)	Difference between fair value depreciation and historical cost depreciation following revaluations	508	3	511
(48,601)	Total movement in reserve in the year	(2,083)	(13,280)	(15,363)
(196,736)	**Balance at 31 March**	**(57,964)**	**(154,136)**	**(212,100)**

18.2 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.

2016/17 Total £'000	Capital Adjustment Account	General Fund £'000	Housing £'000	2017/18 Total £'000
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement			
	Charges for depreciation and impairment			
(226,882)	Balance at 1 April	(145,719)	(83,069)	(228,788)
8,883	Charges for depreciation and impairment of non-current assets	6,248	3,973	10,220
1,987	Revaluation of Property, Plant and Equipment	5,180	6,132	11,312
479	Revenue expenditure funded from capital under statute	1,342	0	1,342
2,031	Amounts of non-current assets written off on disposal/sale as part of gain/loss on disposal to CIES	182	2,583	2,765
13,380		12,951	12,687	25,639
837	Adjusting amounts written out to Revaluation Reserve	(508)	(3)	(511)
14,217	**Net written out amount of the cost of non-current assets consumed in the year.**	12,444	12,684	25,127
	Capital financing applied in the year			
(4,463)	Use of the Capital Receipts Reserve to finance new capital expenditure	(386)	(1,239)	(1,625)
(236)	Use of the Major Repairs Reserve to finance new capital expenditure	0	(5,633)	(5,633)
(462)	Capital grants and contributions credited to the CIES that have been applied to capital financing	(115)	(536)	(652)
(3,395)	Statutory provision for the financing of capital charged to the General Fund and HRA balances	(4,614)	0	(4,614)
(3,103)	Capital expenditure charged against the General Fund and HRA balances	(3,034)	0	(3,034)
(11,659)		(8,149)	(7,408)	(15,558)
	Movement in the year			
31	Movement in the market value of Investment Properties debited or credited to the Comp Income and Exp Stmt	(235)	0	(235)
(4,580)	HRA loan repayment	0	(4,735)	(4,735)
85	Repayments of soft loans and housing act advances	78	0	78
(228,788)	**Balance at 31 March**	**(141,582)**	**(82,529)**	**(224,111)**

18.3 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.

2016/17 £'000		2017/18 £'000
83,254	**Balance at 1 April**	86,934
1,377	Remeasurements of the net defined benefit liability	(4,488)
6,533	Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the Comprehensive I&E Statement	7,116
(4,230)	Employer's pension contributions and direct payments to pensioners payable in the year	(4,176)
86,934	**Balance at 31 March**	**85,386**

19 Cash flow statement – operating activities

The cash flows for operating activities include the following items:

2016/17 £'000		2017/18 £'000
2,220	Interest paid	3,135
(2,510)	Investment income received	(302)
(290)	Total	**2,833**

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

20 Grant Income

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

2016/17 £'000	Taxation and non-specific grant Income a) General government grants	2017/18 £'000
(1,994)	Revenue Support Grant	(998)
(4,290)	Non-domestic rates income and expenditure	(4,377)
(3,314)	New homes bonus	(2,421)
(9,598)	**Total of general government grants**	**(7,796)**
	b) Recognised capital grants and contributions	
1,594	Grants and contributions	(460)
1,594	**Total of recognised capital grants and contributions**	**(460)**

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

2016/17	Credited to Services	2017/18
£'000	a) 'True' revenue grants	£'000
(29,824)	Rent allowances	(29,160)
(16,119)	Rent rebates	(15,220)
(628)	Benefits administration	(608)
(233)	NDR	(241)
(809)	Other revenue grants	(569)
(47,612)		(45,799)
	b) Grants re Revenue expenditure funded by grants under Statute (REFCUS)	
(785)	Housing specified grant for disabled facilities	(968)
(2)	Environment Agency (coast and flood protection)	(53)
0	Other grants	0
(48,399)	**Total to general government grants**	**(46,820)**

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.

21 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.

2016/17		2017/18
£'000		£'000
55	External audit services carried out by the appointed auditor	55
0	Rebate from PSAA	(7)
18	Certification of grant claims and returns	22
73	**Total**	**70**

22 Councillors' Allowances

The total of councillors' allowances paid in the year was £300,789 (2016/17 - £296,598).

Details can be found on our website:
https://www.canterbury.gov.uk/downloads/download/194/councillor_allowances

23 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 are shown in the following table.

Number of employees 2016/17	Remuneration band	Number of employees 2017/18
7	£50,000 - £54,999	8
5	£55,000 - £59,999	5
6	£60,000 - £64,999	9
5	£65,000 - £69,999	4
2	£70,000 - £74,999	2
2	£75,000 - £79,999	0
0	£80,000 - £84,999	1
2	£85,000 - £89,999	1
0	£90,000 - £94,999	1
0	£95,000 - £99,999	0
1	£100,000 - £104,999	1
2	£105,000 - £109,999	1
0	£110,000 - £114,999	0
1	£115,000-£119,999	1
0	£150,000-£154,999	1
33	**Total**	**35**

23.1 Senior Officers' Emoluments

This note reports the details of officers with statutory responsibilities and those reporting direct to the Chief Executive or part of Senior Management Team. The lowest full-time pay rate on the Council's salary scale is £16,258 therefore the test of the most senior salary not exceeding 20 times this rate is comfortably met.

2016/17				**2017/18**		
Salaries fees & allowances £'000	**Pension Contribution £'000**	**Total**	**Statutory Officers**	**Salaries fees & allowances £'000**	**Pension Contribution £'000**	**Total £'000**
113	16	129	Head of paid service - Chief Executive (0.81 FTE)	117	16	133
100	13	113	Chief Financial Officer - Director of Resources	101	13	114
106	6	112	Head of Legal Services	0	0	0
39	0	39	Interim Head of Legal Services	95	0	95
			Non Statutory Directors			
108	14	122	Deputy Chief Executive	109	15	123
66	9	75	Assistant Director - Direct Services	0	0	0
87	12	99	Assistant Director - Commissioned Services	89	11	100
87	12	99	Assistant Director - Planning & Regeneration	88	12	100
80	11	91	Assistant Director - Strategy & Democracy	93	12	105
80	11	91	Assistant Director - Finance & Procurement	81	11	92
866	**104**	**970**	**Total**	**773**	**90**	**862**

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.

24 Exit Packages and Termination Benefits

The Council terminated the contracts of a number of employees in 2017/18, incurring liabilities of £267,000 (£156,000 in 2016/17). The total in 2017/18 is in respect of 10 officers from various divisions within the Council who received exit packages as part of the Council's ongoing rationalisation of services. Payments include all payments for redundancy, compromise agreements, pension costs incurred and pay-in-lieu of notice. The total cost of these exit packages is analysed in bands of £20,000 below:

2016/17				2017/18		
Number of Packages	Type of exit package	Total cost £'000	Band	Number of Packages	Type of exit package	Total cost £'000
1	Compulsory Redundancy	7	£0 -	4	Compulsory Redundancy	43
1	Other	2	£20,000	3	Other	14
1	Compulsory Redundancy	21	£20,0001 -	0	Compulsory Redundancy	0
0	Other	0	£40,000	1	Other	38
0	Compulsory Redundancy	0	£40,001 -	1	Compulsory Redundancy	41
0	Other	0	£60,000	0	Other	0
1	Compulsory Redundancy	66	£60,001 -	0	Compulsory Redundancy	0
1	Other	60	£80,000	0	Other	0
0	Compulsory Redundancy	0	£120,000 -	1	Compulsory Redundancy	131
0	Other	0	£140,000	0	Other	0
5		156		10		267

Accounting regulations require the council to include a provision in the accounts for redundancy costs that the council know they will incur in 2018/19. The amounts payable to officers after 31 March 2018 are excluded from the table above as it will be disclosed in 2018/19.

25 Related Party Transactions

The Council is required to disclose material transactions with related parties (which includes close family relationships), 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 20 (above) – both credited to services and credited to taxation and non-specific grant income. Grant receipts outstanding are also shown in this note.

Councillors

Councillors have direct control over the Council's financial and operating policies. The total of councillors' allowances paid in the last year is shown in note 22.

Details of any related party transactions with councillors are collected annually. Two councillors are on the board of Active Life Ltd, who receive funding from the council to provide leisure services within the district. One councillor is on the board at East Kent Housing. Several councillors are trustees of groups that have received small amounts of grant funding during the year.

East Kent Housing Limited

The council has a 25% share of East Kent Housing Ltd, an Arms Length Management Organisation. Payment of £3,027,000 was made in 2017/18 to East Kent Housing in respect of management fees (including charged back service income and consolidated items). The council received £169,000 from East Kent Housing in respect of service level agreements and services supplied. The council paid £170,000 to East Kent Housing in respect of services received. Balances due to and from East Kent Housing at 31 March 2018 were £7,000 and £52,000 respectively.

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.

	Payments CTax £'000	Payments NNDR £'000	Receipts NNDR £'000	Other Payments £'000
Kent County Council precept	58,998	4,587	0	0
Kent and Medway Fire Authority precept	3,673	510	0	0
Police & Crime Commissioner for Kent precept	7,869	0	0	0
Kent County Council Pension Fund	0	0	0	3,890

26 Private Finance Initiative (PFI)

In October 2007 the Council entered into an agreement with Kent County Council and nine other Kent district councils to all participate in a Private Finance Initiative (PFI) called 'Better Homes Active Lives'. The PFI 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 £429k. 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.

27 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 10 to the financial statements. Impairment losses on financial assets are shown in the financing and investment section of the Comprehensive Income and Expenditure Statement.

28 Pension Costs

Participation in pension 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.

In general, participating in a defined benefit pension scheme means that the Employer is exposed to a number of risks:

- Investment risk. The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.
- Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.
- Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.
- Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the Kent County Council Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of the risks above may also benefit the Employer e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.

The actuary appointed to carry out the valuation for final accounts purposes is Barnett Waddingham.

The pension disclosures in the accounts are determined by IAS 19.

28.1 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 of the General Fund via 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:

2016/17 £'000	Transactions in the Comprehensive Income and Expenditure Statement	2017/18 £'000
	Cost of Services	
3,550	Current Service cost	4,741
0	Past Service costs	0
77	Settlements and Curtailments	23
65	Administrative expense	60
	Financing and Investment income and expenditure	
2,841	Net interest expense	2,292
6,533	**Total retirement benefit charged to the Surplus or Deficit on the provision of services**	**7,116**
	Other retirement benefit charged to the Comprehensive Income and Expenditure statement	
	Remeasurement of the net defined benefit liability comprising:	
(17,617)	Return on plan assets (exc net interest expense amount)	(896)
(4,320)	Actuarial changes in demographic assumptions	0
32,500	Actuarial changes in financial assumptions	(3,592)
203	Other actuarial (gains)/losses on assets	0
(9,389)	Experience gain/loss on defined benefit obligation	0
1,377	**Total retirement benefit charged to the other Comprehensive**	**(4,488)**
7,910	**Total charged to the Comprehensive Income and Expenditure Statement**	**2,628**
	Movements in Reserves Statement	
(6,533)	Reversal of net charges for retirement benefits in accordance with the code to the Surplus or Deficit for the provision of services	(7,116)
	Actual amount charged against the General Fund Balance for pensions in the year	
3,929	Employer contributions payable to the scheme	3,890
301	Unfunded benefits paid	286

28.2 Pensions Assets and Liabilities recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council’s obligation in respect of its defined benefit plans is as follows:

2016/17 £'000	Net Pension Liability as at 31 March in Balance Sheet	2017/18 £'000
204,463	Present value of the defined benefit obligation	205,907
121,563	Less fair value of plan assets	124,340
82,900	Sub-total	81,567
4,034	Other movements in the liability	3,819
86,934	**Net liability arising from the defined benefit obligation**	**85,386**

28.3 Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

2016/17 £'000	Movement in Fair Value of scheme assets	2017/18 £'000
101,764	**Opening fair value of scheme assets at 1 April**	**121,563**
3,543	Interest income	3,264
	Remeasurement gain/(loss):	
17,617	Return on plan assets (exc amount in net interest expense)	896
(203)	Other actuarial gains/(losses)	0
(65)	Administrative expenses	(60)
4,230	Employer Contribution	4,176
870	Employee Contribution	881
(6,193)	Estimated Benefits paid	(6,380)
121,563	**Closing fair value of scheme assets at 31 March**	**124,340**

28.4 Reconciliation of Present Value of the Scheme Liabilities

2016/17 £'000	Movement in Defined Benefit Obligation ('Scheme Liabilities')	2017/18 £'000
(185,018)	**Opening balance at 1 April**	**(208,497)**
(3,550)	Current service cost	(4,741)
(6,384)	Interest cost of pension scheme liabilities	(5,556)
(870)	Employee Contributions	(881)
	Remeasurement gains and losses:	
4,320	Actuarial gains/(losses) from demographic assumption changes	0
(32,500)	Actuarial gains/(losses) from financial assumption changes	3,592
9,389	Experience gain/(loss) on defined benefit obligation	0
(77)	Past service cost including curtailments	(23)
301	Unfunded pension payments	286
5,892	Estimated benefits paid	6,094
(208,497)	**Closing balance at 31 March**	**(209,726)**

28.5 Local Government Pension Scheme Assets Comprised:

2016/17 £'000	Pension Scheme Assets	2017/18 £'000
3,106	**Cash** *(no quoted market price in an active market)*	4,120
85,792	**Equity instruments**	82,972
	Bonds	
907	- Gilts *(no quoted market price in an active market)*	951
11,842	- Other	11,888
15,148	**Property** *(no quoted market price in an active market)*	15,634
4,768	**Target Return Portfolio**	8,775
121,563	**Total Assets**	**124,340**

28.6 Local Government Pension Scheme Assets Breakdown

The following information represents the percentages of the total Fund held in each asset class (split by those that have a quoted market price in an active market, and those that do not).

	2017/18	
	% Quoted	% Unquoted
Fixed Interest Government Securities		
UK	-	-
Overseas	0.8%	-
Corporate Bonds		
UK	4.7%	-
Overseas	4.9%	-
Equities		
UK	27.4%	-
Overseas	37.2%	-
Property		
All	-	12.6%
Others		
Absolute return portfolio	7.1%	-
Private Equity	-	1.5%
Infrastructure	-	0.6%
Cash/Temporary Investments	-	2.9%
Net Current Assets		
Debtors	-	0.6%
Creditors	-	(0.2%)
Total	**82.0%**	**18.1%**

28.7 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

Both the Local Government Pension Scheme and discretionary benefits liability have been estimated by Barnett Waddingham, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31 March 2016.

The significant assumptions used by the actuary have been:

	2017/18 £'000	2016/17 £'000
Mortality assumptions:		
Longevity at 65 for current pensioners		
- Men	23.1	23.0
- Women	25.2	25.0
Longevity at 65 for future pensioners		
- Men	25.3	25.1
- Women	27.5	27.4
Rate of inflation (RPI)	3.35%	3.50%
Rate of inflation (CPI)	2.35%	2.60%
Rate of increased salaries	3.85%	4.10%
Rate of increase in pensions	2.35%	2.60%
Rate for discounting scheme liabilities	2.55%	2.70%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remained constant. The assumption in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Sensitivity Analysis	**£'000**	**£'000**	**£'000**
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present Value Total Obligation	206,288	209,726	213,225
Projected Service Cost	4,496	4,605	4,716
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present Value Total Obligation	209,973	209,726	209,480
Projected Service Cost	4,605	4,605	4,605
Adjustment to pension increases & deferred revaluation	+0.1%	0.0%	-0.1%
Present Value Total Obligation	212,981	209,726	206,523
Projected Service Cost	4,716	4,605	4,496
Adjustment to mortality age rating assumption	+1 year	none	-1 year
Present Value Total Obligation	217,967	209,726	201,806
Projected Service Cost	4,752	4,605	4,463

28.8 Impact on the Council's Cashflow

The objectives of the scheme are to keep the employers' contribution as at a constant rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 17 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2019.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Council anticipates to pay £3,915,000 expected contributions to the scheme in 2018/19.

The weighted average duration of the defined benefit obligation for scheme members is 17 years.

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.

29 Operating Leases payable

During 2011/12 the Council 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 of £98,000 in 2017/18, (£98,000 for 2016/17).

The future cash payments required under these leases are:

Details of period	As at 31 March 2018 £'000	As at 31 March 2019 £'000
Not later than one year	98	98
Later than one year and not later than five years	390	390
Later than five years	1,229	1,131
Total	**1,717**	**1,619**

The Council'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 in respect of this contract were £1,184k for 2017/18.

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:

As at 31 March 2017 £'000	Details of period	As at 31 March 2018 £'000
343	Not later than one year	489
305	Later than one year and not later than five years	543
4,052	Later than five years	4,505
4,700	**Total**	**5,537**

30 Assets held under Finance Leases

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 2018 has been included in the statements at a value of £1,644k with a corresponding long term liability for the same value. The assets will be depreciated over the life of the contract in line with the annual contract payments.

The deemed minimum lease repayments will be payable over the following periods

Minimum Lease Payments	As at 31 March 2018 £'000
Not later than one year	786
Later than one year and not later than five years	859
Later than five years	0
Total	**1,645**

Other long-term liabilities in the balance sheet reflect the liability for this embedded finance lease, as well as money received in advance for future services.

31 March 2017 £'000		31 March 2018 £'000
2,316	Embedded leases	1,645
9	Receipts in advance	29
2,324		**1,674**

31 Contingent Liability

At 31 March 2018 the council had no contingent liabilities to disclose.

32 Interest in joint arrangements

The Council entered into an arrangement with Dover District Council and Thanet District Council for the provision of the ICT service, HR services, customer services and Revenue and Benefits service. The joint ICT and HR services are hosted by Thanet District Council and Dover Council with all council's paying a management fee for the services provided. The Revenue and Benefits and customer services functions are now provided by Civica jointly on behalf of the three councils.

The 2017/18 financial statements contain a long term debtor of £215k which represents the Canterbury City Council element of the EK Services reserve.

33 Provisions

	NNDR Appeals £'000	Other Provisions £'000	Total £'000
Balance at 31 March 2017	(1,860)	(987)	(2,847)
Additional provisions made	(1,482)	(460)	(1,942)
Amounts used	904	0	904
Reversal of unused amounts	0	0	0
Balance at 31 March 2018	**(2,438)**	**(1,447)**	**(3,885)**

NNDR Appeals
This provision is the Council's share of the provision for appeals against NNDR ratings. The Valuation Office has a backlog of outstanding appeals, hence the current high provision.

Other Provisions
Other provisions cover the potential liabilities arising from the insurance claims with the former Municipal Mutual Insurance Company, a provision for early retirement/redundancy and a general provisions account. The other provisions are individually insignificant.

Housing Revenue Account Income and Expenditure Statement

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.

2016/17 £'000		2017/18 £'000
	Income	
(23,723)	Dwelling rents (gross) note 8	(23,167)
(578)	Non-dwelling rents (gross)	(518)
(193)	Leaseholders charges for service and facilities	(264)
(1,491)	Other charges for services and facilites	(1,409)
(112)	Contributions towards expenditure	0
(26,097)	**Total Income**	**(25,357)**
	Expenditure	
5,892	Repairs and Maintenance	5,780
	Supervision and management	
3,999	General Management	3,712
2,130	Special Services	2,113
336	Rents, rates, council tax and insurance	363
3,899	Depreciation charges note 6	3,973
3,871	Impairment of non-current assets note 7	6,132
24	Debt management costs	20
78	Increase/(decrease) in provision for bad debts	230
20,228	**Total Expenditure**	**22,322**
(5,869)	Net cost of HRA Services as included in the Comprehensive Income and Expenditure Statement	(3,035)
121	HRA services share of Corporate and Democratic Core	121
(5,747)	**Net cost of HRA Services**	**(2,914)**
	HRA share of the operating income and expenditure included in the comprehensive income and expenditure statement	
(1,622)	Gain on sale of HRA fixed assets	(577)
2,329	Interest payable	2,254
	Interest and investment income	
(30)	Notional cash balances	(33)
129	Pensions interest cost and expected return on pension assets Note 10	97
0	Capital grants and contributions receivable	(536)
(4,940)	**(Surplus)/Deficit for the year on HRA services**	**(1,708)**

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 non-current 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 £6,132,000 due to the assessed increase in council house values following capital expenditure (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.

2016/17 Net expenditure £'000		2017/18 Net expenditure £'000
(4,940)	Surplus (-)/Deficit for the year on the HRA Income and Expenditure Statement	(1,709)
(1,284)	Adjustments between accounting basis and funding basis by statute	1,404
(6,224)	Net increase (-)/decrease before transfers to or from reserves	(305)
(2)	Transfers to/from(-) reserves (see table below)	283
(6,226)	**Increase (-)/Decrease in HRA Balance for the year**	**(22)**
(6,727)	**Housing Revenue Account balance b/f at 1 April**	**(12,953)**
(12,953)	**Housing Revenue Account balance c/f at 31 March**	**(12,975)**

Movement on HRA Balance

2016/17 Net Expenditure		2017/18 Net Expenditure
£'000	**Items included in the HRA Income & Expenditure Account, but excluded from the movement on the HRA Balance for the year**	£'000
(3,866)	Reversal of impairment losses - Note 7	(6,132)
4,580	Reversal: HRA loan repayment	4,735
0	Capital grants and contributions applied	536
0	Change in fair value of HRA investment properties	0
1,622	Net gain on sale of HRA fixed assets	577
(7)	Difference between amounts charged to income and expenditure for premiums and discounts and the charge for the year determined by statute	(7)
(0)	Accrual for annual leave	0
(224)	Net charges made for retirement benefits in accordance with IAS 19 - Note 10	(234)
2,104		**(524)**
	Items not included in the HRA Income & Expenditure Account, but included in the movement on the HRA Balance for the year	
(3,663)	Transfers to/(from) major repairs reserve - Note 3	1,661
275	Employer's contributions payable to Kent Pension Fund and retirement benefits payable direct to pensioners	267
0	Capital expenditure funded by the HRA - Note 4	0
(3,388)		**1,928**
(1,284)	**Net adjustments between accounting basis and funding basis under statute**	**1,404**
	Transfers to/from reserves	
(2)	Contribution to/(from) HRA subsidence and other reserves	283
(2)	**Transfers to/from reserves**	**283**

Notes to the Housing Revenue Account

1 Housing Stock

At 31 March 2018, the council was responsible for managing 5,128 units of accommodation:

Type of property	Number of bedrooms				Total
	One	Two	Three	Four	
Flats - low rise	1,069	322	6	0	**1,397**
Flats - medium rise	318	353	64	3	**738**
Flats - high rise	63	68	0	0	**131**
Houses and bungalows	361	930	1,439	94	**2,824**
Hostel places	36	2	0	0	**38**
Totals	1,847	1,675	1,509	97	**5,128**

Plus 11 basic homes (shared ownership dwellings)

The movement in housing stock can be summarised as follows:

	Stock at 1 April 2017	Right to buy sales	Additions	Reductions	Stock at 31 March 2018
Flats	2,282	(9)	13	(20)	**2,266**
Houses and bungalows	2,835	(18)	7	0	**2,824**
Hostels	38	0	0	0	**38**
Totals	**5,155**	**(27)**	**20**	**(20)**	**5,128**

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

2016/17 £'000	Operational assets	2017/18 £'000
308,160	Dwellings	315,030
2,618	Garages	2,662
879	Community centres & communal open space	879
387	Land	391
1,337	Shops	1,337
313,381	**Total**	**320,298**

2 Vacant possession value

The vacant possession value of dwellings within the HRA as at 31 March 2018 was £954,290,000. For the balance sheet, the figure has been reduced to 33% i.e. £315,030,000 (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. Housing subsidy included a grant in the form of a Major Repairs Allowance (MRA) to resource the Major Repairs Reserve. This was ring fenced for capital expenditure of a housing nature. The housing business plan following self financing replaced the subsidy grant with an allowance for capital expenditure which also resources the Major Repairs Reserve.

2016/17 £'000	Major Repairs Reserve	2017/18 £'000
0	Balance at 1 April	0
(3,899)	Transfer from capital adjustment account (HRA depreciation)	(3,973)
	Transfer to (-)/from HRA	
3,663	Voluntary transfer to/from MRR	(1,661)
236	Less: expenditure on dwellings financed from this reserve	5,633
0	**Balance at 31 March**	**0**

4 Summary of Capital Financing

Capital expenditure of £7,408,000 was spent on housing assets within the HRA during the year. This was financed as follows:

2016/17 £'000	Capital financing of HRA expenditure	2017/18 £'000
236	Major repairs reserve	5,633
5,000	Borrowing	0
1,812	Capital receipts	1,239
0	Capital grant & contributions	536
7,048	**Total**	**7,408**

5 Summary of Capital Receipts

Housing capital receipts during 2017/18 were as follows:

2016/17 £'000	Housing capital receipts	2017/18 £'000
(3,010)	Dwelling sales (net of administration deduction)	(3,131)
(21)	Other sales	(32)
(0)	Mortgage repayments and discounts repaid	0
(3,031)	**Total**	**(3,162)**

6 Depreciation of non-current assets

Depreciation of £3,973,000 was charged to the HRA. This comprises of £3,897,000 for dwellings and £76,000 for non-dwelling housing assets.

7 Impairment of non-current assets

	2017/18 £'000
Capital expenditure	7,408
Less assessed net increase in effective value	4,058
	3,351
Impairment of non-dwelling assets	59
Social value reduction	2,723
	6,132

8 Dwelling rents (gross)

This is the total rent income for dwellings for the year after allowance is made for voids etc. Average rents were £91.74 per payment week in 2017/18 (£92.51 in 2016/17). Rents were decreased on 1 April 2017 by an average of £0.77 per payment week.

9 Rent Arrears

The rent arrears figures are as follows:

2016/17 £'000		2017/18 £'000
577	Gross rent arrears at 31 March	913
(250)	Repayments of rent	(438)
268	Net rent arrears at 31 March	475
548	Provision for bad debts at 31 March	641
%		%
2.4	Gross rent arrears as a proportion of gross dwelling rent income	3.9

10 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 28 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:

2016/17 £'000		2017/18 £'000
83	HRA share of current service cost less employer contributions	127
(262)	HRA share of past service cost less employer contributions	(257)
(179)	Adjustment to 'General Management' line of HRA statement	(130)
129	HRA share of pensions interest cost and expected return on	97
(50)	Pensions assets	(33)
(225)	Net charges made for retirement benefits in accordance with IAS 19	(234)
275	Employer's contributions payable to the Kent Pension Fund and retirement benefits payable direct to pensioners	267
50	HRA share of contributions to/from Pensions Reserve	33
0	**Net effect on HRA balance**	**0**

11. Interests in Companies – East Kent Housing Limited

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 (unaudited) financial results of the company for 2017/18 and the council's share are shown in the following table, the 2016/17 position has been restated as late adjustments were made to EKH's financial statements that were not reflected in our 2016/17 financial statements as the level of the adjustments were not material to our financial position:

2016/17 Restated East Kent Housing Ltd £'000	2016/17 Restated CCC Share (25%) £'000		2017/18 East Kent Housing Ltd £'000	2017/18 CCC Share (25%) £'000
8,653	2,163	Turnover	8,817	2,204
(9,720)	(2,430)	Expenses	(9,076)	(2,269)
(1,067)	(267)	Operational profit/(loss)	(259)	(65)
(1,357)	(339)	Profit/(loss) after taxation	(558)	(140)
(1,927)	(482)	Other comprehensive income and (expenditure)	1,332	333
(3,284)	(821)	Total comprehensive profit/(loss) for the year	774	194
658	165	Non-current assets	1,262	316
964	241	Current assets	686	172
(806)	(202)	Current liabilities	(450)	(113)
(10,706)	(2,677)	Non-current liabilities	(707)	(177)
(171)	(43)	Profit and loss reserve	(684)	(171)
(114)	(29)	Capital contribution	(106)	(27)
10,175	2,544	Pensions reserve	10,081	2,520

The council’s investment in the company is nominal.

Note 25 Related Party Transactions sets out the transactions that took place between the council and East Kent Housing Ltd over 2017/18.

The council’s management fee payment of £3,027,000 is 34% of East Kent Housing Ltd.’s turnover of £8,817,000, which broadly equates to the council’s pro-rata share of the total council housing stock managed by the company.

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 not included in the council’s accounts.

The Collection Fund

Income and Expenditure Account

2016/17 CTAX £'000	2016/17 NNDR £'000	Income & Expenditure Account	Note	2017/18 CTAX £'000	2017/18 NNDR £'000
		Income and discounts			
(76,194)	0	Tax Levied		(80,476)	0
0	(54,155)	Income from business ratepayers		0	(51,981)
(76,194)	**(54,155)**	**Total Income**		**(80,476)**	**(51,981)**
		Expenditure			
		Precepts and demands			
0	38,949	DCLG	3	0	41,170
55,616	4,021	Kent County Council	3	58,998	4,587
7,464	0	Police & Crime Commissioner for Kent	3	7,869	0
3,534	447	Kent & Medway Fire & Rescue Authority	3	3,673	510
10,222	1,263	Canterbury City Council (incl. Parishes)	3	10,676	4,697
76,835	**44,679**	**Total payments to preceptors**		**81,215**	**50,963**
		Business rate			
0	233	Costs of collection		0	229
0	416	Renewable Energy Schemes		0	329
0	52	Transitional protection payment due from authority		0	88
0	0	Transitional protection payment on account		0	2,040
0	**52**			**0**	**2,129**
		Bad and doubtful debts			
(118)	(492)	Write offs		(163)	(135)
437	1,202	Provisions		685	233
		Losses on appeal			
0	(415)	Changes in provision for appeals		0	1,446
77,155	**45,727**	**Total Expenditure**		**81,737**	**55,194**
961	(8,428)	Net (surplus)/deficit for 2017/18		1,261	3,212
(2,341)	4,246	Collection Fund balance at 1 April		(1,380)	(4,233)
(1,380)	(4,233)	Collection Fund balance at 31 March		(120)	(1,021)

Notes to the collection fund accounts

1. General Note

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

2. Collection Fund Surplus/Deficit

Canterbury and the major preceptors share any council tax surpluses or deficits attributable to the collection fund in proportion to the precept requirement. The 2016/17 NNDR surplus of £4,233,000 and the 2016/17 Council Tax surplus of £1,380,000 were recovered and distributed from preceptors in 2017/18.

Canterbury, the major preceptors and central government share any NNDR surpluses or deficits attributable to the collection fund in proportion to the precept requirement.

3. Apportionment of Collection Fund element over preceptors

Council Tax

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into eight valuation bands estimated at 1 April 1991 values for this specific purpose. The property valuations are carried out by the Valuation Office Agency. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Kent County Council, Police and Crime Commissioner for Kent, Kent and Medway Fire and Rescue Authority and the City Council and dividing this by the Council Tax Base.

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 surplus position of £1,846,000 which was notified in January 2017 pro-rata to the 2017/18 precepts, and the actual surplus balance of £119,000 pro-rata to the 2017/18 precepts.

Council Tax precepts and demands breakdown

	Balance B/f £'000	2017/18 precepts £'000	2016/17 Est surplus £'000	2015/16 actual surplus £'000	Total Precept paid 2017/18 £'000	Collection fund balance at 31 March £'000
Kent County Council	(1,008)	57,652	927	418	**58,998**	(87)
Police & Crime Commissioner for Kent	(135)	7,686	124	58	**7,869**	(12)
Canterbury City Council (incl. Parishes)	(173)	10,444	159	73	**10,676**	(16)
Kent & Medway Fire & Rescue Authority	(64)	3,587	59	27	**3,673**	(5)
	(1,380)	**79,370**	**1,270**	**576**	**81,215**	**(120)**

NNDR

The administration of business rates changed in 2013/14 following the introduction of a business rates retention scheme. The new system is intended to provide a link between business rates growth and the amount of money that councils have to spend on local services. Councils will be able to keep a proportion of the business rates revenue as well as growth on the revenue that is generated in their area. This is intended to provide a financial incentive for councils to promote economic growth but also increases the financial risk due to volatility and non-collection of rates.

For 2017/18 Canterbury City Council continued with a pooled arrangement with Kent County Council in order to minimise the levy payment due to central government and thereby maximise the local retention of locally generated business rates.

NNDR precepts and demands

	Balance B/f £'000	2017/18 precepts £'000	2016/17 surplus £'000	Total precept paid 2017/18 £'000	Collection fund balance at 31 March £'000
Kent County Council	(381)	4,338	249	**4,587**	(136)
Kent Fire and Rescue Authority	(42)	482	28	**510**	(15)
Canterbury City Council	(1,693)	3,590	1,107	**4,697**	(117)
Payments to Pool/DCLG	(2,117)	39,786	1,383	**41,170**	(753)
	(4,233)	**48,196**	**2,767**	**50,963**	**(1,021)**

4. Council Tax Base

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:

2016/17 Band D equivalent dwellings	Band	Estimated Number of Taxable Properties after effect of discounts	Ratio (ninths)	2017/18 Band D equivalent dwellings
2,200	A	3,634	6/9	2,368
6,668	B	9,169	7/9	6,936
13,276	C	15,678	8/9	13,650
10,493	D	10,931	9/9	10,739
7,425	E	6,370	11/9	7,642
5,045	F	3,646	13/9	5,183
3,212	G	1,996	15/9	3,297
135	H	70	18/9	142
48,453		51,494		49,957
98.9%		Collection Rate		98.9%
47,947		Council Tax Base		48,907

5. 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, are allocated between Canterbury, central government and major preceptors. There was a general revaluation of all properties effective from 1 April 2017.

2016/17 £'000		2017/18 £'000
131,815	Non domestic rateable value	137,569
0.497	small business non domestic rating multiplier	0.479
65,512	NNDR levied	65,896
(11,589)	Less: allowances and other adjustments	(14,143)
53,923	Net contribution due to pool	51,752
232	Cost of collection	229
54,155	Income from business rate payers	51,981

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

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 Council, that officer is the Chief Financial Officer
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the Statement of Accounts.

The Chief Financial Officer's responsibilities:

The Chief Financial Officer 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 Chief Financial Officer 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 Chief Financial Officer 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 Council at the accounting date and its income and expenditure for the year ended 31 March 2018.

Signed

P. Marshall

Patricia Marshall
Date 26 July 2018
Deputy Chief Executive (Chief Financial Officer)

G A Glover

Cllr Georgina Glover
Date 26 July 2018
Chair Audit Committee