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Agenda

Audit Committee

Wednesday 13 March 2024
at 7pm

The Guildhall, St Peter's Place, Canterbury

Membership of the Committee:

Councillor Alister Brady (Chair)
Councillor Dan Smith (Vice Chair)
Councillor Dane Buckman
Councillor Elizabeth Carr-Ellis
Councillor Andrew Harvey
Councillor Roben Franklin
Councillor Robert Jones

Quorum: 4

NOTES
1. Members of the public may speak at meetings of the Committee so long as they contact Democratic Services by 12.30pm the working day before the meeting.
2. The venue for the meeting is wheelchair accessible and has an induction loop to help people who are hearing impaired.
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4. The information contained within this agenda is available in other formats, including Braille, large print, audio cassettes and other languages.
Contact: Democracy, 01227 862009, democracy@canterbury.gov.uk

Agenda

1 APOLOGIES FOR ABSENCE

2 SUBSTITUTE COUNCILLORS

3 DECLARATIONS OF INTEREST

TO RECEIVE any declarations for the following in so far as they relate to the business for the meeting:-

a. Disclosable Pecuniary Interests
b. Other Significant Interests (what were previously thought of as nonpecuniary Prejudicial interests)
c. Voluntary Announcements of Other Interests

Voluntary Announcements of Other Interests not required to be disclosed as DPI's or OSI's, ie announcements made for transparency reasons alone, such as:
• Membership of outside bodies that have made representations on agenda items, or
• Where a Councillor knows a person involved, but does not have a close association with that person, or
• Where an item would affect the well-being of a Councillor, relative, close associate, employer, etc but not his/her financial position.

[Note: an effect on the financial position of a Councillor, relative, close associate, employer, etc; OR an application made by a Councillor, relative, close associate, employer, etc, would both probably constitute either an OSI or in some cases a DPI].

4 PUBLIC PARTICIPATION

Members of the public may speak on any item on the agenda, for a maximum of three minutes, provided that notification has been given to Democratic Services by 12.30pm on the working day before the Meeting.

5 MINUTES OF THE MEETING HELD ON 24 JANUARY 2024

TO CONFIRM as a true record.

6 EKAP Quarterly Internal Audit Update Report

TO CONSIDER the report of Nicci Mills, Service Director - Finance and Procurement.

7 EKAP Draft Internal Audit Plan 2024/2025

TO CONSIDER the report of Nicci Mills, Service Director - Finance and Procurement.

8 Approval of Audited Statement of Accounts

TO CONSIDER the report of Nicci Mills, Service Director - Finance and Procurement.

9 Capital and Investment and Treasury Management Strategies

TO CONSIDER the report of Nicci Mills, Service Director - Finance and Procurement.

10 2023-24 Q3 Treasury Management report

TO NOTE the report of Nicci Mills - Service Director Finance and Procurement.

11 Regulation of Investigatory Powers Act (RIPA) 2000 - Annual report

TO CONSIDER the report of Jan Guyler, Head of Legal Services and Monitoring Officer

12 RISK REGISTER

TO CONSIDER the report of Nicci Mills, Service Director Finance & Procurement and Rob May, Head of Finance.

13 ANY OTHER URGENT BUSINESS

14 EXCLUSION OF THE PRESS AND PUBLIC

TO RESOLVE - That under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following items of business on the grounds that there would be disclosure of exempt information as defined in Part 1 of Schedule 12A of the Act or the Freedom of Information Act or both.

15 ANY OTHER URGENT BUSINESS WHICH FALLS UNDER THE EXEMPT PROVISIONS OF THE LOCAL GOVERNMENT ACT 1972 OR THE FREEDOM OF INFORMATION ACT 2000 OR BOTH

Item 6

AUDIT COMMITTEE

13 March 2024

Subject:	**QUARTERLY INTERNAL AUDIT UPDATE REPORT**
Director/Head of Service:	Service Director - Finance & Procurement
Officer	Christine Parker - Head of Audit
Cabinet Member	Councillor Mike Sole
Key / Non Key decision	Non key decision
Decision Issues:	This matter is within the authority of the Audit Committee
Classification:	This report is open to the public.
CCC Ward(s):	All
Summary & purpose of report:	This report informs members of progress against the audit plan that was approved by the Audit Committee in March 2023.
To Resolve:	That this committee accept the results of internal audit work and make comments, if required to Full Council.
Next stage in process	To receive the results of internal audit work and to make comments as considered appropriate.

SUPPORTING INFORMATION

1. **Introduction**

Issues for consideration
The Committee is asked to agree the options set out below because: In order to comply with best practice, the Audit Committee should independently contribute to the overall process for ensuring that an effective internal control environment is maintained. This report includes the summary of the work of the East Kent Audit Partnership since the last Audit Committee meeting.

2. **Detail**

2.1 AUDIT REPORTING
For each Audit review, management has agreed a report, and where appropriate, an Action Plan detailing proposed actions and implementation dates relating to each recommendation. Reports continue to be issued in full to the relevant Directors, as well as an appropriate manager for the service reviewed.

Follow-up reviews are performed at an appropriate time, according to the status of the recommendation, timescales for implementation of any agreed actions and the risk to the Council.

An Assurance Statement is given to each area reviewed. The assurance statements are linked to the potential level of risk, as currently portrayed in the Council's risk assessment process. The assurance rating given may be Substantial, Reasonable, Limited or No assurance.

Those services with either Limited or No Assurance are monitored and brought back to Committee until a subsequent review shows sufficient improvement has been made to raise the level of assurance to either Reasonable or Substantial. A list of those services currently with such levels of assurance is attached as Appendix 2 to the EKAP report.

Part of the remit of the Council's Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

To assist the Committee meet its terms of reference with regard to the internal control environment an update report is regularly produced on the work of internal audit. The purpose of this report is to detail the summary findings of completed audit reports and follow-up reviews since the report submitted to the last meeting of this Committee.

2.2 SUMMARY OF WORK

There has been one Internal Audit report completed for the period. This has been allocated the assurance level of substantial. Summaries of the report findings are detailed within Annex 1 to this report.

In addition, two follow up reviews have been completed during the period. It is usual to find when the follow up review is undertaken, that the vast majority of recommendations that were agreed by management have been implemented and that management are actively strengthening the internal control environment.

3. **Relevant Council Policy/Strategies/Budgetary Documents**

None

4. **Consultation planned or undertaken**

Management Team has considered this report.

5. **Options available with reasons for suitability**

To consider the results of audit work and to make such observations and recommendations to the Council as the committee sees fit.

6. **Reasons for supporting option recommended, with risk assessment**

N/A

7. **Implications**

(a) Financial Implications

The lack of existence of sound financial and other controls could result in loss to the Authority (both financially and to its reputation). Internal Audit is one means of securing such controls.

(b) Legal Implications

The Council is responsible for designating an officer with responsibility for ensuring that satisfactory systems of accounting and internal control are maintained (s.151 Local Government Act 1972). The Service Director - Finance & Procurement discharges this function, in part, through the work of Internal Audit and the East Kent Audit Partnership.

(c) Equalities - None identified.

(d) Environmental including carbon emissions and biodiversity - None identified.

8. Conclusions

The Council is ultimately responsible for the adequacy of internal controls for the effective management of its affairs and this committee acting in an audit role is one mechanism through which it can monitor and review the effectiveness of these controls.

Contact Officer:
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Filename EKAP Update Report March 2024
Version 3 February 2024

Background documents and appendices.

Additional documents containing information exempt from publication - None.

EAST KENT
DOVER•FOLKESTONE&HYTHE•THANET•CANTERBURY
AUDIT PARTNERSHIP

Annex 1

QUARTERLY UPDATE REPORT FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP

1. INTRODUCTION AND BACKGROUND

This report includes the summary of the work completed by the East Kent Audit Partnership since the last Audit Committee meeting together with details of the performance of the EKAP to the 31st December 2023.

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2 SUMMARY OF REPORTS

	Service / Topic	Assurance level	No of Recs *	
2.1	Payroll	Substantial	Critical High Medium Low	0 0 0 0

*For Assurance and Recommendation priority definitions see Appendix 4

2.1 Payroll - Substantial Assurance

2.1.1 Audit Scope

To ensure that the payroll service administered on behalf of Canterbury, Dover and Thanet Councils, including EK Services is adequately controlled to ensure that the right people are getting paid the right amounts at the right time and all the relevant data held is accurate.

2.1.2 Summary of findings

The primary findings giving rise to the Substantial Assurance opinion are as follows:

- Responsibility for the payroll function is clearly specified in the Service Agreement between Dover District Council and each organisation which it provides the payroll service for.
- Detailed procedure notes and checklists are in place covering the process for adding and paying new starters.
- Suitable procedures are in place for the collection of information relating to new starters so that they can be paid the correct amount in line with their appointment.
- For a sample of 14 new starters tested, all tax codes and tax earnings year to date were found to be correct.
- Accurate information is being sent to the KCC Pension Administrators to enrol all new starters eligible to join the pension scheme.
- For a sample of 14 new starters tested, the correct deductions in respect of pension contributions are being made.

- Once a new starter has been added to the payroll system, suitable procedures are in place to confirm that the payroll calculation is correct prior to the monthly payroll being processed.
- For a sample of 14 new starters tested, all were found to have their payroll correctly calculated with no errors being identified in the sample tested.

FOLLOW UP OF AUDIT REPORT ACTION PLANS

3.1 As part of the period's work, two follow up reviews have been completed of those areas previously reported upon to ensure that the recommendations previously made have been implemented, and the internal control weaknesses leading to those recommendations have been mitigated. Those completed during the period under review are shown in the following table.

Service / Topic	Original Assurance level	Revised Assurance level	Original Number of Recs.		No. of Recs. Outstanding *	
Tenants' Health & Safety	Substantial	Substantial	C H M L	0 1 2 0	C H M L	0 0 0 0
Financial Procedure Rules	Reasonable	Substantial	C H M L	0 0 2 0	C H M L	0 0 1 0

*For Assurance and Recommendation priority definitions see Appendix 14

3.2 As part of the follow up action, the recommendations under review are either:

- "closed" as they have been successfully implemented, or
- "closed" as the recommendation is yet to be fully implemented but is on target with a revised implementation date, or
- (for medium or low risks only) "closed" as management has decided to tolerate the risk, or the circumstances have since changed, or
- (for critical or high risks only) "closed" on the EKAP System with a revised implementation date and escalated to management for further tracking and reporting to the audit committee.

3.3 Details of each of any individual high priority recommendations outstanding after follow-up are included at Annex 1 and on the grounds that these recommendations have not been implemented by the dates originally agreed with management, they would be escalated for the attention of the s.151 Officer and Members of the Audit Committee. There are none for this period.

The purpose of escalating outstanding high-risk matters is to try to gain support for any additional resources (if required) to resolve the risk, or to ensure that risk acceptance or tolerance is approved at an appropriate level.

4.0 WORK IN PROGRESS

4.1 During the period under review, work has also been undertaken on the following topics, which will be reported to this Committee at future meetings: Market Income &

Street Trading; Creditors; Contract Standing Orders; HMOs; Disabled Facilities Grants; EKS Council Tax Reduction Scheme and Absence Management.

5.0 CHANGES TO THE AGREED AUDIT PLAN

5.1 The 2023-24 audit plan was agreed by Members at the meeting of the Audit Committee that was held on 15th March 2023.

5.2 The Head of the Audit Partnership meets on a quarterly basis with the Head of Finance & Procurement (Section 151 Officer) to discuss any amendments to the plan. Members of the Committee will be advised of any significant changes through these regular update reports. Minor amendments are made to the plan during the course of the year as some high-profile projects or high-risk areas may be requested to be prioritised at the expense of putting back or deferring to a future year some lower risk planned reviews. The detailed position regarding when resources have been applied and or changed are shown as Annex 3.

6.0 FRAUD AND CORRUPTION

There were no new reported instances of suspected fraud or irregularity that required either additional audit resources or which warranted a revision of the audit plan at this point in time.

7.0 INTERNAL AUDIT PERFORMANCE

7.1 For the period ended 31st December 2023 141.75 chargeable days were delivered against the planned target for the year of 230 days which equates to achievement of 61.63% of the original planned number of days.

7.2 The financial performance of the EKAP for 2023-24 is on target for Canterbury City Council.

7.3 The EKAP introduced an electronic client satisfaction questionnaire, which is used across the partnership. The satisfaction questionnaires are sent out at the conclusion of each audit to receive feedback on the quality of the service

Attachments

Appendix 1 Summary of high priority recommendations outstanding or in progress at follow up
Appendix 2 Summary of services with Limited / No Assurance awaiting follow up
Appendix 3 Progress to 31st December 2023 against the agreed 2023-24 Audit plan.
Appendix 4 Assurance Statements
Appendix 5 Balanced Scorecard

Appendix 1

SUMMARY OF CRITICAL/HIGH PRIORITY RECOMMENDATIONS OUTSTANDING AFTER FOLLOW-UP – APPENDIX 1		
Original Recommendation	**Agreed Management Action, Responsibility and Target Date**	**Manager's Comment on Progress Towards Implementation.**
None		

Appendix 2

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS YET TO BE REVIEWED			
Service	**Reported to Committee**	**Level of Assurance**	**Follow-up Action Due**
Counter Fraud Arrangements	July 2023	Limited	March 2024
Housing Responsive Repairs & Maintenance	October 2023	Limited	May 2024

Appendix 3

PROGRESS AGAINST THE AGREED 2023-24 AUDIT PLAN
CANTERBURY CITY COUNCIL

Review	Original Planned Days	Revised Budgeted Days	Actual days to 31/12/2023	Status and Assurance Level
FINANCIAL SYSTEMS:				
Car Parking	10	12	12.62	Finalised - Reasonable
Creditors	10	10	0.29	Work in progress
HOUSING SYSTEMS: Social Housing				
Housing Contract Letting	10	10	0.12	Quarter 4
New Build Capital	10	5	0	Quarter 4
HOUSING SYSTEMS: General Fund Housing				
HMOs	10	10	3.49	Work in progress
Homelessness	10	10	0.14	Quarter 4
Disabled Facilities Grants	10	10	2.71	Work in progress
INFORMATION GOVERNANCE:				
Data Protection	10	0	0.17	Deferred
Freedom of Information	10	13	12.75	Finalised - Reasonable
ICT RELATED:				
ICT Controls	12	2	1.89	Deferred
CORPORATE GOVERNANCE:				
Complaints Monitoring	10	10	9.17	Finalised - N/A
Contract Monitoring / CSOs	10	10	0.49	Work in progress
OTHER:				
Liaison with External Auditor	1	1	1.48	Ongoing
Audit Committee Reports / Meetings	10	10	10.30	Ongoing
Audit Plan Prep / Meetings	12	12	3.98	Ongoing
Corporate Advice / MT	2	4	4.87	Ongoing
Section 151 Meetings & Support	6	6	5.81	Ongoing
Follow Up	6	10	8.94	Ongoing
Whitstable Harbour Accounts	3	5	4.78	Finalised
Newspaper House	1	1	0	Quarter 4
SERVICE LEVEL:				
Climate Change	2	2	0.03	Quarter 4
Licensing	10	12	12.40	Finalised - Substantial / Reasonable
Market Income & Street trading	6	6	0.20	Work in progress

CILs	10	0	0	Deferred
Review	**Original Planned Days**	**Revised Budgeted Days**	**Actual days to 30/09/2023**	**Status and Assurance Level**
HR RELATED:				
Absence management	10	10	0.34	Work in progress
Payroll	6	6	4.01	Work in progress
FINALISATION OF 2022-23 AUDITS:				
Counter Fraud Arrangements	23	10	9.90	Finalised - Limited
Recruitment / Leavers		1	1.14	Finalised - Reasonable
Housing Responsive Repairs & Mtc		10	9.17	Finalised - Limited
RESPONSIVE ASSURANCE:				
Elections	0	1	0.81	Completed - N/A
Active Life	0	10	9.24	Finalised - N/A
LUF Grant Assurance	0	1	0.44	Ongoing
Governance re Local Plan Interests	0	10	10.07	Finalised - N/A
TOTAL	**230**	**230**	**141.75**	**61.63%**

PROGRESS AGAINST THE AGREED 2023-24 AUDIT PLAN
EAST KENT SERVICES

Review	Original Planned Days	Revised Planned Days	Actual days to 31/12/2023	Status and Assurance Level
EKS REVIEWS:				
Housing Benefits Administration	15	13	13.15	Finalised - Substantial
Housing Benefits Testing	20	14	13.79	Finalised - N/A
Council Tax Reduction Scheme	15	15	0.95	Work in progress
Customer Services	15	8	0.12	Quarter 4
Transition Governance		15	7.15	Work in progress
OTHER:				
Corporate/Committee	4	4	4.06	Ongoing
Follow Up	2	2	0.11	Ongoing
FINALISATION of 2022-23 AUDITS:				
Debtors	2	2	1.45	Finalised - Substantial
Data Management Desegregation Project	1	1	1.55	Finalised - Reasonable
Total	**74**	**74**	**42.33**	**57.20%**

Appendix 4

Definition of Audit Assurance Statements & Recommendation Priorities

<u>Cipfa Recommended Assurance Statement Definitions:</u>

Substantial assurance - A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Reasonable assurance - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Limited assurance - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

No assurance - Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

<u>EKAP - Priority of Recommendations Definitions:</u>

Critical – A finding which significantly impacts upon a corporate risk or seriously impairs the organisation's ability to achieve a corporate priority. Critical recommendations also relate to non-compliance with significant pieces of legislation which the organisation is required to adhere to and which could result in a financial penalty or prosecution. Such recommendations are likely to require immediate remedial action and are actions the Council must take without delay.

High – A finding which significantly impacts upon the operational service objective of the area under review. This would also normally be the priority assigned to recommendations relating to the (actual or potential) breach of a less prominent legal responsibility or significant internal policies; unless the consequences of non-compliance are severe. High priority recommendations are likely to require remedial action at the next available opportunity or as soon as is practical and are recommendations that the Council must take.

Medium – A finding where the Council is in (actual or potential) breach of - or where there is a weakness within - its own policies, procedures or internal control measures, but which does not directly impact upon a strategic risk, key priority, or the operational service objective of the area under review. Medium priority recommendations are likely to require remedial action within three to six months and are actions which the Council should take.

Low – A finding where there is little if any risk to the Council or the recommendation is of a business efficiency nature and is therefore advisory in nature. Low priority recommendations are suggested for implementation within six to nine months and generally describe actions the Council could take.

Appendix 5

Balanced scorecard

INTERNAL PROCESSES PERSPECTIVE :	2023-24 Actual	Target	FINANCIAL PERSPECTIVE:	2023-24 Actual	Original Budget
	Quarter 3		Reported Annually		
Chargeable as % of available days	87%	90%	• Cost per Audit Day	£	£403.37
Chargeable days as % of planned days			• Direct Costs	£	£521,918
CCC	61.63%	75%			
DDC	80.86%	75%	• + Indirect Costs (Recharges from Host)	£	£10,530
TDC	70.02%	75%			
FHDC	66.31%	75%	• - 'Unplanned Income'	£	Zero
EKS	57.23%	75%			
Overall	69.47%	75%	• = Net EKAP cost (all Partners)		£532,448
Follow up/ Progress Reviews;					
• Issued	46	-			
• Not yet due	18	-			
• Now due for Follow Up	33	-			
Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)	Partial	Partial			
CUSTOMER PERSPECTIVE:	2023-24 Actual	Target	INNOVATION & LEARNING PERSPECTIVE:	2023-24 Actual	Target

	Quarter 3		Quarter 3		
Number of Satisfaction Questionnaires Issued;	50		Percentage of staff qualified to relevant technician level	61%	60%
Number of completed questionnaires received back;	17 = 34 %		Percentage of staff holding a relevant higher-level qualification	50%	50%
			Percentage of staff studying for a relevant professional qualification	0%	N/A
Percentage of Customers who felt that;			Number of days technical training per FTE	3.37	3.5
• Interviews were conducted in a professional manner	100%	100%			
• The audit report was 'Good' or better	100%	90%	Percentage of staff meeting formal CPD requirements (post qualification)	50%	50%
• That the audit was worthwhile.	100%	100%			

Item 7

AUDIT COMMITTEE

13 March 2024

Subject:	**DRAFT INTERNAL AUDIT PLAN 2024-25**
Director/Head of Service:	Service Director - Finance & Procurement
Officer	Christine Parker - Head of Audit
Cabinet Member	Councillor Mike Sole
Key / Non Key decision	Non key decision
Decision Issues:	This matter is within the authority of the Audit Committee
Classification:	This report is open to the public.
CCC Ward(s):	All
Summary & purpose of report:	This report includes the draft plan of work for the forthcoming 12 months for approval.
To Resolve:	That Members approve (but not direct) the Council's Internal Audit Plan for 2024-25.
Next stage in process	To consider the draft plan of work and to make comments as considered appropriate.

SUPPORTING INFORMATION

1. Introduction and Background.

1.1 The purpose of the Council's Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

1.2 In accordance with current best practice, the Audit Committee should "review and assess the annual internal audit work plan". The purpose of this report is to help the Committee assess whether the East Kent Audit Partnership has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with the Professional Standards for Internal Auditors.

2. Risk Based Internal Audit Plan.

2.1 The Audit Plan for the year 2024 to 2025 is attached as Annex A and has the main components to support the approved Audit Charter. The plan is produced in accordance with professional guidance, including the Public Sector Internal Audit Standards (PSIAS). A draft risk based plan is produced from an audit software database (APACE) maintained by the EKAP which records our risk assessments on each service area based upon previous audit experience, criticality, financial risk, risk of fraud and corruption etc. Amendments have been made following discussions with senior management, taking account of any changes within the Council over the last 12 months, and foreseen changes over the next.

2.2 The plan has then been further modified to reflect emerging risks and opportunities identified by the Head of Paid Service, Directors, and the links to the Council's Corporate Plan and Corporate Risk Register. This methodology ensures that audit resources are targeted to the areas where the work of Internal Audit will be most effective in improving internal controls, the efficiency of service delivery and to facilitate the effective management of identified risks.

2.3 Furthermore, wider risks are considered, by keeping abreast of national issues and advice from the auditing profession / firms. The annual "Risk in Focus" report provides an opportunity to track how risk priorities are developing over time. A number of dominant themes are emerging. Climate change, biodiversity and environmental sustainability has gained in prominence more than any other risk type over the past three years. It is a moving target that organisations will have to make continuous efforts to mitigate for decades to come. This should therefore be considered a "forever risk" that is likely to move up the risk rankings over time. Risks related to business continuity, crisis management and disaster response have been heavily impacted by recent events, and the same is true of health, safety & security, Human capital, diversity and talent management and organisational culture. These latter three have a clear human capital element to them. Organisations have been forced to flex and adapt, protecting their workforces from harm as health risks sharply escalated and hybrid working evolved. The top five identified risks through 'Risk In Focus' survey have been considered for inclusion in the 2024-25 plan as follows;

1 - Cyber Security & Data Security – retained its long-standing pole position as the top threat. A review of cyber security is scheduled for 2024-25. Additional risk areas within ICT identified provision for other reviews in the coming years which have also been included in the draft plan 2024-29.

2 - Human Capital, Diversity & Talent Management – also retained its 2nd place ranking in the report as many businesses find themselves out of sync with post-pandemic culture. This is a vital area of risk as both strategic goals and risk management require a broad and deep base of talent and skills for success. Employee Benefits in Kind is included in the 2024-25 draft plan, linked to talent retention.

3 - Macroeconomic and Geopolitical Uncertainty - weathering the economic effects of higher inflation and interest rates and the market changes they engender changes the emphasis of this risk category this year as it cuts across all areas, from financial liquidity and insolvency risk, to business continuity and supply chain resiliency. A combined finance review covering Capital, Journals and Budget Monitoring is scheduled for 2024-25 Other reviews of Business Continuity and Emergency Planning are proposed for 2024-25 relating to this risk.

4 - Climate Change, Biodiversity and Environmental Sustainability - has slipped down the priority rankings, but a raft of new regulations – including Europe's Corporate Sustainability Reporting Directive - means that organisations expect this to be the' 3rd biggest risk by 2027. Keeping a strategic, entrepreneurial attitude will be key to avoid being mired in compliance. The previous Climate Change review was undertaken in 2022-23, time has been allocated in the 2024-25 draft plan to further assess the Council's progress.

5 – Supply Chain, Outsourcing and Nth Party Risk - a key area where dynamic, fast-moving interconnected risks – economic headwinds, deglobalisation, physical threats to logistics, climate related weather events and new regulations, make strategic and operational innovation a must. Stress on supply chains will be a constant feature over the next few years. Reviews of Disaster Recovery and Tenant's Health & Safety are scheduled in 2024-25 relating to this area.

2.4 There are insufficient audit resources to review all areas of activity each year. Consequently, the plan is based upon a formal risk assessment that seeks to ensure that all areas of the Council's operations are reviewed within a strategic cycle of audits. In order to provide Members with assurance that internal audit resources are sufficient to give effective coverage across all areas of the Authority's operations, a strategic plan has been included.

2.5 To comply with the best practice, the agreed audit plan should cover a fixed period of no more than 1 year. Members are therefore being asked to approve the 2024-25 plan at the present time, and the future years are shown as indicative plans only, to provide Members with assurance that internal audit resources are sufficient to provide effective coverage across all areas of the Authority's operations within a rolling cycle.

2.6 The plan has been prepared in consultation with the Directors and the Council's statutory s.151 Officer. The plan is also designed to meet the requirements expected by the External Auditors for ensuring key controls are in place for its fundamental systems. This Committee is also part of the consultation process, and its views on the plan of work for 2024-25 are sought to ensure that the Council has an effective internal audit of its activities and Members receive the level of assurance they require to be able to place assurance on the annual governance statement.

2.7 The risk assessment and consultation to date has resulted in;

70% Core Assurance Projects- the main Audit Programme;
10% Fraud Work – fraud awareness, reactive work and investigating potential irregularities;
0% Corporate Risk – testing the robustness of corporate risk mitigating action; and
20% Other Productive Work – Corporate meetings, follow up, general advice, liaison.

Total number of audits is 20.

For 2024-25 the days available for carrying out audits are 230 days. When compared to the resources available and working on the basis that the highest risk areas should be reviewed as a priority, the EKAP has sufficient resources to undertake 20 audits. The detailed draft audit plan is contained in Annex A. The current resources of the EKAP will allow for an assurance opinion to be given on the Council's key risk areas and systems. This should be sufficient coverage to inform the Annual Governance Statement.

3. Benchmarking the level of Internal Audit Provision.

3.1 Members should have regard to how audit resources within the Council compare to other similar organisations when considering the adequacy and effectiveness of the internal audit plan. The results of benchmarking show that the average number of internal audit days provided by district councils within Kent is circa 387 days annum. The audit plan of Canterbury City Council of 230 days plus their share of the Civica audit plan totals 255. The Canterbury plan is therefore 132 days less well-resourced than the Kent average benchmark.

4. Head of Internal Audit Opinion of the 2024-25 Internal Audit Plan.

4.1 This report is presented to Members by the Council's Service Director - Finance & Procurement whose s.151 responsibility it is to maintain an effective internal audit plan. In the interests of openness and transparency and in order to enable Members to make an informed decision on the internal audit plan presented for their approval, consideration should also be given to the opinion of the Head of Internal Audit on the effectiveness of the plan.

4.2 It is the professional opinion of the Head of the East Kent Audit Partnership that the draft 2024-25 internal plan presented to Members will allow for an assurance opinion to be given on the Council's key risk areas and systems - which accordingly will be limited to commenting on the systems of internal control that have been examined in the year.

4.3 The Head of the East Kent Audit Partnership recommends that Members approve the 2024-25 internal audit plan as drafted, noting that to bring the plan up to the Kent average benchmark would require an additional 132 days per annum, which at an estimated cost per audit day of £400 would cost £52,800 per annum.

Attachments

Annex A Canterbury City Council and EKS Civica draft 2024-25 Internal Audit Plan

5. **Relevant Council Policy/Strategies/Budgetary Documents**

None

6. **Consultation planned or undertaken**

Management Team has considered this report.

7. **Options available with reasons for suitability**

To consider the results of audit work and to make such observations and recommendations to the Council as the committee sees fit.

8. **Reasons for supporting option recommended, with risk assessment**

N/A

9. **Implications**

(a) Financial Implications
The lack of existence of sound financial and other controls could result in loss to the Authority (both financially and to its reputation). Internal Audit is one means of securing such controls.

(b) Legal Implications
The Council is responsible for designating an officer with responsibility for ensuring that satisfactory systems of accounting and internal control are maintained (s.151 Local Government Act 1972). The Service Director - Finance & Procurement discharges this function, in part, through the work of Internal Audit and the East Kent Audit Partnership.

(c) Equalities - None identified.

(d) Environmental including carbon emissions and biodiversity - None identified.

10. **Conclusions**

The Council is ultimately responsible for the adequacy of internal controls for the effective management of its affairs and this committee acting in an audit role is one mechanism through which it can monitor and review the effectiveness of these controls.

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Telephone: Direct Dial: 01304 872160

Filename EKAP Update Report March 2024
Version 1 January 2024

Background documents and appendices.

Additional documents containing information exempt from publication - None.

CANTERBURY CITY COUNCIL STRATEGIC AUDIT PLAN 2024-2029									
Plan Area	**Year Last Audited**	**Risk / Corp Plan / Service**	**Previous Assurance Level**	**Follow Up Assurance Level**	**2024-25 Planned Days**	**2025-26 Planned Days**	**2026-27 Planned Days**	**2027-28 Planned Days**	**2028-29 Planned Days**
Financial Governance:									
Combined Finance Review	2016-17	Service	Substantial	Substantial	15				
Treasury Management	2020	Risk	Substantial	Substantial			10		
Car Parking Income	2020	Corp Plan	Reasonable/ Ltd	Reasonable					10
Creditors	2020	Service	Substantial	Reasonable					10
VAT	2021-22	Service	Substantial	Substantial				10	
Insurance	2015	Service	Reasonable	Substantial		7			
Rent setting, Accounting, Collection & Debt management	2021	Service	Substantial	Substantial			10		
Corporate Governance:									
Members' Code of Conduct and Standards Arrangements	2017-18	Service	Substantial	Substantial			10		
Officers' Code of Conduct	2020	Service	Reasonable	Reasonable				10	
Whistleblowing / Anti Money Laundering	2019	Risk	Substantial	Substantial			5		
Local Code of Corporate Governance	2021-22	Service	Limited	Reasonable			10		
Complaints Monitoring	2023	Service	N/A						10
Scheme of Officer Delegations	2020	Service	Substantial	Substantial				10	
Financial Procedure Rules	2023	Service	Substantial	Substantial					5
Data Protection/ Information Management/ GDPR	2020-21	Risk	Reasonable	Reasonable	10				

Freedom of Information	2023-24	Risk	Reasonable				8		
Risk Management	2014	Service	Substantial	Substantial		10			
Performance Management	2019	Service	Reasonable	Substantial		10			
Counter Fraud Assurance:									
Fraud Resilience Review	2022-23	Risk	Limited		10				
Duplicate Payment Testing	New	Service	New		3	3	3	3	
Data Analytics	New	Service	New		10	10	10	10	10
Tenancy Fraud	2022/23	Service	New						10
People Management:									
HR - Apprenticeships	New	Service	New			5			
HR - Recruitment & DBS / Leavers	2022/23	Service	New					10	
HR - Absence Management	New	Service	New						10
HR - Employee Allowances & Expenses	New	Service	New				3		
HR - Employee Benefit In Kind	New	Service	New		3				
Payroll	New	Service	New		3	6	3	6	6
Asset Management:									
Property Charges / Asset Management	2011	Service	Substantial	Substantial	10				
Procurement & Contract Assurance:									
Contract Monitoring / CSOs	2023/24	Service	WIP						10
Cyber Security & Data Assurance:									
Network Security	N/A	Service	New		10				
Software Licensing	N/A	Service	New			10			
ICT Physical & Environment	N/A	Service	New				10		
ICT Change Control	N/A	Service	New					10	

ICT Acquisitions & Disposals	N/A	Service	New						10
Service Assurance: Housing									
Business Continuity / Emergency Plan	2019	Risk	Reasonable	Reasonable	10				
Responsive Repairs & Mtc	2022/23	Service	Limited					10	
Resident Engagement	New	Service	New						10
Voids Management	2022	Service	Limited	Reasonable / Limited		10			
Leaseholder Services	New	Service	New				10		
Tenant Health & Safety	2022/23	Service	Substantial	Substantial	10			10	
Contract Management	2022/23	Service	New					10	
Independent Living	New	Service	New			10			
Capital Programme	2022/23	Service	Reasonable / Limited	Reasonable / Limited					10
Rechargeable Works	New	Service	New			10			
Garage Management	New	Service	New				10		
New Build Capital Programme	New	Service	New			10			
Private Sector Housing / HMOs	New	Corp Plan	New						10
Improvement Grants/DFG	2023/24	Corp Plan	WIP						10
Anti Social Behaviour	New	Risk	New		10				
HRA Business Plan	New	Service	New				10		
HRA Income Recovery	New	Service	New		10				
Housing Allocations	2015	Service	Reasonable / Ltd	Reasonable	10				
Homelessness	2014	Risk	Reasonable	Reasonable	10				
Right to Buy	2022/23	Service	Reasonable	Substantial				10	
Service Assurance: Environmental & Operational									

Grants - paid and received - LUF	New	Service	New		5	5	5	5	5
Beach Huts - Council owned	New	Service	New		10				
Building Control Income / Partnership	2016-17	Service	Reasonable/ Ltd	Reasonable	10				
Cemeteries	2017-18	Service	Reasonable	Reasonable			10		
Climate Change	2022/23	Corp Plan	Reasonable	Reasonable	2	2	2	10	2
Community Safety Partnership	2021	Corp Plan	Reasonable/ Ltd	Reasonable					10
Coast Protection / Engineers	2016-17	Risk	Reasonable	Substantial		10			
CCTV	2014	Corp Plan	Reasonable/ Ltd	Reasonable		10			
Digital Transformation	New	Corp Plan	New						10
Elections - Financial Management	2021/22	Service	Reasonable	Substantial		10			
Employee H&S	New	Service	New				10		
Environmental Health - Food Safety	2013	Service	Reasonable /Ltd	Reasonable		10			
Environmental Protection - Noise / Contaminated Land	2015	Service	Reasonable	Reasonable			10		
Environmental Health – Public Health Burials	2020	Service	Sub/ Reasonable	Sub/Reason able				10	
Equality and Diversity	2018	Service	Reasonable	Substantial			10		
Grounds Maintenance	2019	Risk	Reasonable	Reasonable				10	
CANENCO	2022/23	Risk	Reasonable / Ltd	Reasonable		10			
Land Charges	2016-17	Risk	Substantial	Substantial		10			
Licensing	2023	Corp Plan	Sub / Reasonable						10
Lifeline	2020	Corp Plan	Reasonable/ Ltd	Reasonable/ Ltd	10				
Market Income & Street Trading	2019	Service	Limited	Reasonable					8
Members Allowances and Expenses	2019	Service	Reasonable	Substantial				10	
Planning Control Income	2019	Service	Substantial	Substantial				10	

Planning Section 106's / CIL	New	Service	New			10			
Safeguarding	2021	Risk	Reasonable	Reasonable			10		
Taxis	2016-17	Service	Reasonable	Reasonable			10		
Waste Management & Recycling	2022/23	Risk	New					11	
Other:									
Liaison with External Auditor	N/A	N/A	N/A	N/A	1	1	1	1	1
Previous Year Work in Progress b/fwd	N/A	N/A	N/A	N/A	14	7	6	10	9
Follow-Up	N/A	N/A	N/A	N/A	10	10	10	10	10
Corporate Advice / CLT	N/A	N/A	N/A	N/A	2	2	2	2	2
S151 Meetings & Support	N/A	N/A	N/A	N/A	6	6	6	6	6
Committee Meetings & Reports	N/A	N/A	N/A	N/A	10	10	10	10	10
Audit Plan Preparation	N/A	N/A	N/A	N/A	12	12	12	12	12
Whitstable Harbour Accounts	N/A	N/A	N/A	N/A	3	3	3	3	3
Newspaper House Service Charges	N/A	N/A	N/A	N/A	1	1	1	1	1
Total Planned Days					**230**	**230**	**230**	**230**	**230**
Reviews outside of the five year cycle;									
Combined Finance Review	2016-17	Service	Substantial	Substantial	**15**				
Insurance	2015	Service	Reasonable	Substantial		**10**			
Housing Allocations	2015	Service	Reasonable / Limited	Reasonable	**10**				
Asset Management	2011	Service	Substantial	Substantial	**10**				
Members' Code	2017-18	Service	Substantial	Substantial		**10**			
Risk Management	2014	Service	Substantial	Substantial		**10**			
Building Control Income	2016-17	Service	Reasonable/ Limited	Reasonable	**10**				
Cemeteries	2017	Service	Reasonable	Reasonable			**10**		
Engineers	2016-17	Risk	Reasonable	Substantial					

CCTV	2014	Corp Plan	Reasonable/ Limited	Reasonable		**10**			
Food Safety	2013	Service	Reasonable/ Limited	Reasonable			**10**		
Environmental Protection - noise / contaminated land	2015	Service	Reasonable	Reasonable			**10**		
Equality & Diversity	2018	Service	Reasonable	Substantial			**10**		
Land Charges	2016-17	Risk	Substantial	Substantial		**10**			
Taxis	2016-17	Service	Reasonable	Reasonable			**10**		
Whitstable Harbour Income	2014	Service	Substantial	Substantial		**8**			

EK SERVICES STRATEGIC AUDIT PLAN 2024-2027

Plan Area	Year lasted audited	Risk / corp plan / service	Previous assurance level	Follow Up Assurance Level	2024-25 Planned Days	2025-26 Planned Days	2026-27 Planned Days
EK Services - Revenues & Benefits (CIVICA)							
Housing Benefits – Payment	2021/22	Service	Substantial	Substantial		16	
Housing Benefits – Overpayments	2020/21	Service	Substantial	Substantial	16		
Housing Benefits – Admin & Assessment	2023/24	Service	Substantial	Substantial			15
Housing Benefit – Appeals	2019/20	Service	Substantial	Substantial	16		
Housing Benefit – DHP	2022/23	Service	Substantial	Substantial		16	
Housing Benefit Subsidy	2020/21	Service	Substantial	Substantial		16	
Council Tax	2021/22	Service	Substantial	Substantial		16	
Council Tax Reduction Scheme	2023/24	Service	WIP				15
Customer Services	2016/17	Service	Substantial	Substantial	16		

Business Rates	2022/23	Service	Substantial	Substantial			15
Business Rates Reliefs / Credits	2019/20	Service	Substantial	Substantial	16		
Debtors and Rechargeable Works	2022/23	Service	Substantial	Substantial			15
Key Performance Indicators	2022/23	Service	Substantial	Substantial			4
Sub-Total					**64**	**64**	**64**
EK Services Corporate							
Meetings/ Audit Plan					5	5	5
WIP at Year End Carried Forward / Follow Up					5	5	5
Sub-Total					**10**	**10**	**10**
Total Days					**74**	**74**	**74**
Reviews outside of three year cycle;							
Housing Benefit – Appeals	2019/20	Service	Substantial	Substantial	16		
Housing Benefits – Overpayments	2020/21	Service	Substantial	Substantial	16		
Housing Benefit Subsidy	2020/21	Service	Substantial	Substantial		16	
Customer Services	2016/17	Service	Substantial	Substantial	16		
Business Rates Reliefs & Credits	2019/20	Service	Substantial	Substantial	16		

Item 8

Audit Committee

13 March 2024

Subject: **2022/23 Annual Accounts - Formal Approval**

Director and Head of Service:

Nicci Mills, Service Director Finance and Procurement and s151 officer
Rob May, Head of Finance

Cabinet Member:

Councillor Mike Sole Cabinet Member for Finance

Decision Issues:

These matters are within the authority of the Council

Is any of the information exempt from publication:

This report is open to the public.

CCC ward(s):

All

Summary and purpose of the report:

Audit Committee is the committee charged with approving the Annual Governance Statement and the Statement of Accounts for 2022/23 and this report sets out the requirements for this. The appendices provide some brief notes on the statement, and Grant Thornton have separately reported back their audit findings.

To resolve :

i) that the Annual Governance Statement 2022/23 and updated Local Code of Corporate Governance is formally approved (Appendix 1)

ii) that the Statement of Accounts for 2022/23 be formally approved

iii) that the Chairman of the Committee formally sign the 2022/23 accounts; and

iv) that the letter of representation (Appendix 4) on behalf of the Council be approved.

1. **Introduction**

1.1 The Council prepared its Statement of Accounts for 2022/23, published and submitted them to the Council's external auditors (Grant Thornton LLP) for audit on 23 August 2023. The auditors are required to issue a report to those charged with governance covering, amongst other things, the outcome of the audit of the Accounts, and for this to be endorsed and approved before the Accounts are signed off. This committee is charged with the governance to approve the auditors' report and sign off the Accounts.

1.2 The Accounts and Audit Regulations 2014 requires the council to complete an annual governance statement and that is approved in advance of the authority approving its statement of accounts.

2. Annual Governance Statement

2.1 The purpose of the statement (Appendix 1) is to give assurance that the council is acting responsibly in all areas and has taken appropriate steps to address its significant risks. Where further action is required to address any issues, these have been included within the statement as Significant Internal Control Issues.

2.2 The requirement to publish the Annual Governance Statement is to report that local authorities are responsible for ensuring that:

- their business is conducted in accordance with all relevant regulations and legal frameworks
- public money is safeguarded and properly accounted for
- resources are used economically, efficiently and effectively to achieve agreed priorities to benefit the district.

3. Statement of Accounts

3.1 The 2022/232 Statement of Accounts is attached as Appendix 2 .

3.2 A glossary of terms used within the Statement of Accounts is attached (Appendix 5).

4. **Audit of Statement of Accounts**

4.1 The Statement of Accounts has been reviewed by Grant Thornton and they have reported their findings in their Audit Findings report (Appendix 3). The Value for Money Audit is still ongoing and the Annual Audit Report will be delayed until this element of the audit has been concluded. The reasons for the delays is explained within the audit findings report.

4.2 There were some changes to the draft financial statements that were published in August as a result of the audit process. These are all detailed within the Audit Findings Report (Appendix 3)

5. **Relevant Council Policy/Strategies/Budgetary Documents**

This committee is responsible for the final approval of the Statement of Accounts.

6. **Consultation planned or undertaken**

Directors, Heads of Service and Budget Managers have been involved in the year-end process.

7. **Options available with reasons for suitability**

i) To approve the Annual Governance Statement and Statement of Accounts
ii) To amend the Annual Governance Statement and Statement of Accounts
iii) To not approve the Annual Governance Statement and Statement of Accounts, however to do so would contravene the Accounts and Audit Regulations 2014.

8. **Reasons for supporting option recommended, with risk assessment**

To approve the statement of accounts as they reflect the financial position of the council as at 31 March 2023.

9. **Implications**

(a) Financial Implications - these are contained in the body of the report

(b) Legal Implications - There are a number of legislative requirements to consider in the preparation and publication of the Statement of Accounts which have been addressed in the preparation of this report.

(c) Equalities – none identified

Other implications

(d) Staffing/resource – these are contained in the body of the report

(e) Property Portfolio – these are contained in the body of the report

10. **Conclusions**

Under the Accounts and Audit (England) Regulations 2014, a representative group of Members (in this case the Audit Committee) has to approve the Annual Governance Statement in advance of its approval of the Statement of Accounts which have to be approved by 30 September 2023 for the 2022/23 accounts. This report seeks these necessary approvals. The Value for Money report will be presented to the Audit Committee at a later date to complete the audit requirements.

Contact Officer: **Nicci Mills**
Job Title: **Service Director Finance & Procurement S151**
Email: **nicci.mills@canterbury.gov.uk**

Appendices
Appendix 1 - Annual Governance Statement and updated Local Code of Corporate Governance
Appendix 2 - Statement of Accounts
Appendix 3 - Audit findings report
Appendix 4 - Letter of Representation
Appendix 5 - Glossary and explanations for statements of accounts

Annual Governance Statement to the 2022/23 Accounts

Local Code of Corporate Governance

Good Governance

Good governance is about how the Council ensures that it is doing the right things, in the right way, for the communities it serves, in a timely, inclusive, open, honest and accountable manner.

A Council's Code of Corporate Governance is:

"*The system by which local authorities direct and control their functions and relate to their communities*"

Our commitment

Canterbury City Council is committed to upholding the highest possible standards of good corporate governance, believing that good governance leads to high standards of management, strong performance, effective use of resources, increased public involvement and trust in the Council and ultimately good outcomes.

The Governance framework comprises the systems and processes, and cultures and values, by which the Council is directed and controlled and through which it engages with its residents, businesses, partners and other stakeholders. This Code of Corporate Governance is a public statement that sets out the framework through which the Council meets its commitment to good corporate governance. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate cost-effective services.

This local code of governance has been developed in accordance with and is consistent with the CIPFA/Solace publication "Delivering Good Governance in Local Government framework 2016", which builds on the seven Principles for the Conduct of Individuals in Public Life.

Core principles of good governance

The core governance principles of the council are:-

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

B. Ensuring openness and comprehensive stakeholder engagement.

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes.

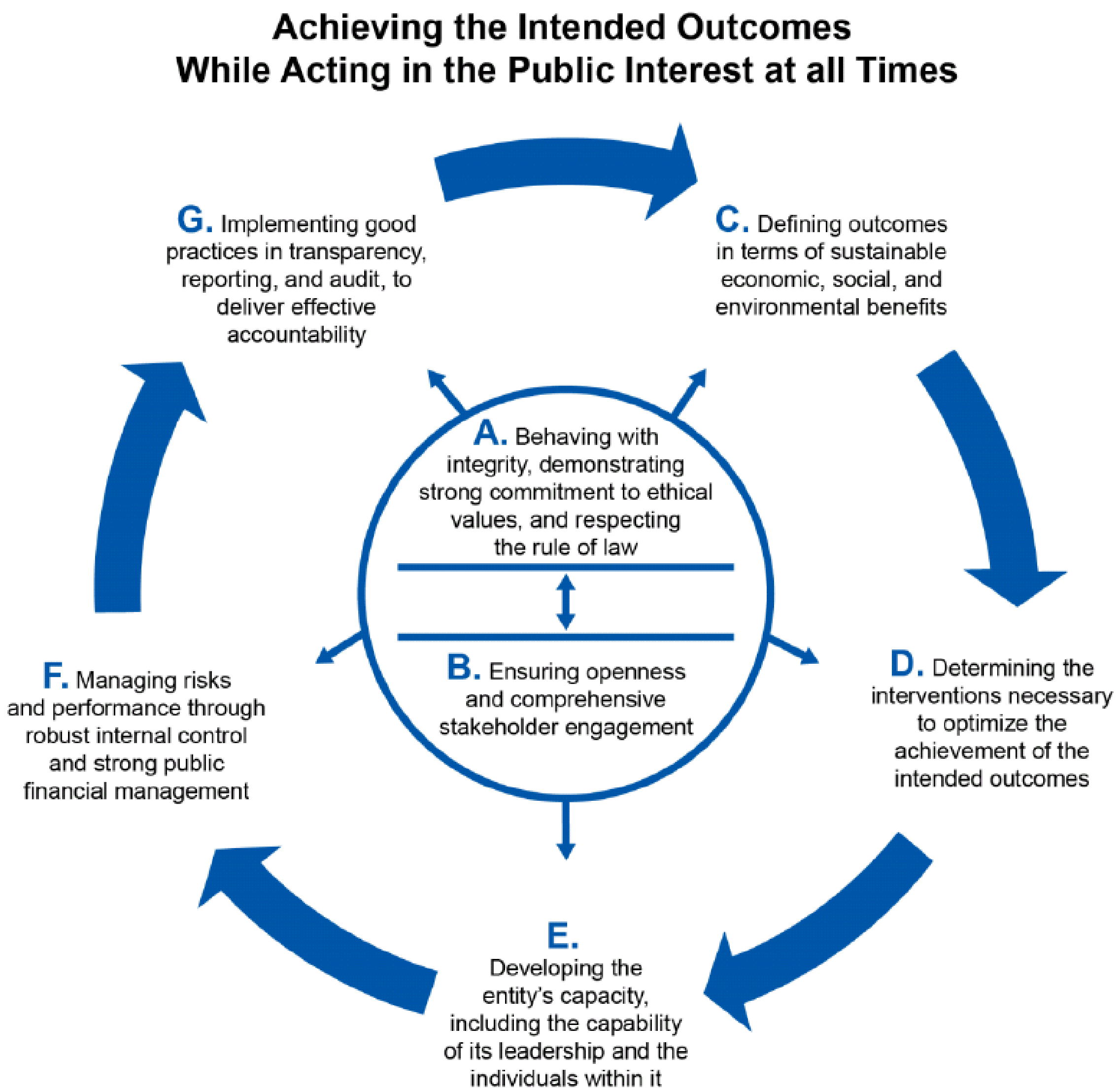
E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.

F. Managing risks and performance through robust internal control and strong public financial management.

G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

Applying the core principles of good governance

This document describes how the Council achieves the seven principles of good governance and describes how the Council's corporate governance arrangements will be monitored and reviewed.



Source: International framework: good governance in the public sector, CIPFA, 2014

The governance framework

This Code takes each of the principles in turn and sets out the systems, processes and principles the Council has put in place to ensure good corporate governance. The Code will be reviewed annually through the Annual Governance Statement process, which will identify the actions to be taken to enhance the code or address any limitations within it.

A– Behaving with Integrity, with commitment to ethical values, and respect for the law		
Commitment	**Procedures**	**Examples of evidence**
• Behaving with Integrity • Demonstrating strong commitment to ethical values • Respecting the rule of law	1. The Council expects the authority's political and managerial leadership to create a climate of openness, support and respect and to uphold the Council's values. 2. Standards of conduct and personal behaviour are set out in the Employee Code of Conduct, the Member Code of Conduct (based upon the seven Nolan Principles) and in the Protocol on Councillor/Officer relations. 3. An up to date register of Councillor and senior officer Interests is maintained. 4. The Council has put in place procedures for considering complaints so that members of the public can express dissatisfaction with Council services and their concerns can be monitored and addressed. These complaints are compared by the Ombudsman against other councils in Kent. The Council has separate complaints processes for District and Parish Councillors managed by the Monitoring Officer. 5. The Council has appointed three separate "Independent Persons" to support this, in accordance with the requirements of the Localism Act, 2011 and our Standards Committee. 6. The Council publishes an annual report of complaints submitted to the Local Government Ombudsman analysing trends in complaints against the Council and what has been done to address them.	• Constitution • Member/Officer Protocol • Member Code of Conduct • Financial Regulations/ • Contract Standard Orders • Register of Interests for Councillors and officers • Register of declarations at meetings • Gifts and Hospitality register • Employee Code of Conduct which is part of the conditions of service included in every employment contract • Complaints procedure • Annual Ombudsman report • Anti-Fraud, Bribery, Corruption and Whistleblowing Policy • Annual Report on the Prevention of Fraud and Corruption • Equalities Policy • Complaints Policy • Procurement Strategy

A– Behaving with Integrity, with commitment to ethical values, and respect for the law		
Commitment	**Procedures**	**Examples of evidence**
	7. The Council's Governance Committee is responsible for constitutional issues and ensures that the constitution is monitored and updated when required. 8. The terms of reference of the Standards Committee includes responsibility for advising on the Council's ethical framework and the promotion of openness, accountability and probity to ensure the highest standards of conduct. 9. The Council maintains an Anti-Fraud, Bribery,Corruption and Whistleblowing Policy to enable confidential reporting of suspected breaches of the Employee Code of Conduct or unethical behaviour. This policy is updated regularly and reviewed by the Audit Committee. Staff attend tri-annual mandatory training on the Policy 10. The Council's standing orders and financial regulations put in place processes designed to ensure that Councillors and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders. They form part of the Council's constitution which is reviewed annually. 11. The Council operates within the legal framework, complying with its statutory duties and making the most of its powers to meet the needs of the district and its residents. 12. The Head of Legal Services is the Council's Monitoring Officer, responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. 13. The Council ensures that statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the Council. 14. The Council has a clear Procurement Process designed to meet the Council's wider objectives and Contract Standing Order Rules designed to deliver robust and fair procurement processes. Independent monitoring of contracts is undertaken to ensure transparency and legal	● All Policies are on the councils intranet ● Committee Minutes ● Policies are reviewed and enforced by a suite of training courses such as Information Security Policy, Access to Information, Equalities and Access Policy

A– Behaving with Integrity, with commitment to ethical values, and respect for the law		
Commitment	**Procedures**	**Examples of evidence**
	compliance. 15. The Council undertakes Equality Impact Assessments of all major council decisions and takes action to implement changes required, to ensure that council services and policies consider the diverse needs of its service users and citizens. 16. We also host a Disability Advisory Panel who advise council officers on matters of policy, service delivery and design.	

B – Ensuring openness and comprehensive stakeholder engagement		
Commitment	**Procedures**	**Examples of evidence**
● Openness ● Engaging comprehensively with Institutional stakeholders ● Engaging stakeholders effectively, including citizens and service users.	1. The Council holds its meetings and those of its committees in public unless there are good reasons for confidentiality based on the legislation. There is a presumption towards openness and transparency in the publication of reports. 2. There is a calendar of dates for submitting, publishing and distributing committee agendas and this allows members of the public to plan and submit requests to speak at Committee meetings. 3. The council permits public speaking at all of its public meetings, based on the rules set out in the constitution. 4. Other methods of public participation at meetings include submission of petitions and questions at Council. 5. Officers use standard report templates for committee and reports to help ensure that readers are provided with	● Committee agendas & minutes all available on the website ● Constitution ● Public Questions and petitions ● Consultation programme ● Petition Scheme ● Council Website ● Annual performance report ● Freedom of Information requests ● District Life Magazine ● Media engagement including social media channels

B – Ensuring openness and comprehensive stakeholder engagement		
Commitment	**Procedures**	**Examples of evidence**
	information that is accurate, complete and unbiased. Reports make clear the options available and the reasons for the recommendations so that the implications of all decisions and strategic risks can be assessed before those decisions are made. 6. The Council's consultation programme ensures that the Council proactively seeks the views of a wide range of people on a range of policies and services, engaging with all sections of the community through workshops, surveys, stakeholder events and witness sessions.The Council seeks to ensure all views are actively considered when making decisions, recognising that it is not always possible to reconcile conflicting viewpoints. 7. The Council undertakes regular customer satisfaction surveys of residents to ensure that it has up to date information about their priorities and levels of satisfaction with the Council and its services. 8. The Council runs services that are fully digital and allow customers to serve themselves wherever possible. 9. The Council puts resources into community grants for voluntary sector partnerships who are delivering services that complement the council's objectives. 10. The Disability Advisory Panel helps the Council evaluate its success in promoting diversity and meeting a broad range of needs. We work with our local Tenant Consultative Group to ensure we deliver the best housing service to our tenants. 11. We work closely with the local business community, including the Canterbury Business Improvement District and the Chambers of Commerce in Herne Bay and Whitstable. 12. The Council sets out in its collective agreements, employment policies and procedures, and terms of reference for forums and meetings involving trade unions, and how it consults with staff and Trade Unions.	● Budget Consultation ● Residents Survey ● Service based survey analysis ● Employment policies and procedures ● Staff and Safety Joint Advisory Committee ● Trade Union Facilities Agreement ● Councillor attendance records on the website ● Published transparency data on the councils website ● Equalities Policy

B – Ensuring openness and comprehensive stakeholder engagement		
Commitment	**Procedures**	**Examples of evidence**
	13. The council complies with the Freedom of Information Act and publishes expenditure data for our suppliers, councillors and management salaries to provide openness and transparency. 14. The Constitution of the Council includes a comprehensive Communications Protocol detailing a framework that is designed to make all the councils communication effective, targeted and legally sound and providing mediums for effective 2 way communication.	

C – Defining outcomes in terms of sustainable economic, social and environmental benefits		
Commitment	**Procedures**	**Examples of evidence**
● Defining Outcomes ● Sustainable economic, social and environmental benefits	1. The Corporate Plan sets out the key priorities of the council and how they will be delivered. 2. The Local Plan sets out plans to develop the Canterbury district until 2030. There will be consultation on the revised Local Plan and associated policies in 2024. 3. A sustainability appraisal was delivered as part of the Local Plan assessing the effects of programmes on the environment and the Environmental Assessment of Plans and Programmes Regulations. 4. Futures study work by Experian setting out the vision and framework for decision making over the next 20 years. 5. The Council has declared a climate change emergency with an objective of being carbon neutral by 2030. 6. The Council actively considers the environmental impact of decisions before those decisions are made. 7. A Climate Change Action Plan sets out how the council will deliver on its climate change objectives. 8. It reviews those objectives each year, through the Annual Statement agreed at the Annual Council meeting and the	● Corporate Plan ● Local Plan ● Future study evidence gathering ● Climate Change Impact Assessments ● Climate Change Action Plan ● Air Quality Action Plan ● Annual performance statement ● Budget setting report ● Economic Plans ● Sustainability appraisal ● Green Travel Plan ● Anti-Slavery and Human Trafficking Policy ● Pay Policy

C – Defining outcomes in terms of sustainable economic, social and environmental benefits		
Commitment	**Procedures**	**Examples of evidence**
	Corporate Plan. 9. The council has produced an Anti-Slavery and Human Trafficking Policy which has been approved at full Council and is promoted to all our suppliers. 10. The council is committed to following the Living Wage as the minimum. The lowest pay scale reflects this to ensure staff receive a wage that meets everyday needs.	

D – Determining the interventions necessary to optimise the achievement of the intended outcomes		
Commitment	**Procedures**	**Examples of evidence**
● Determining Interventions ● Planning Interventions ● Optimising achievement of intended outcomes	1. The council has a Medium Term Financial Strategy to resource its aspirations and assess and plan for any financial risks. The strategy is reviewed annually. 2. The Corporate Plan expresses the strategic objectives for the Council. 3. The annual report enables councillors and services to measure performance against targets and assist in decisions about where resources should be focused. 4. Services prepare operational plans indicating how they will meet objectives set in the Corporate Plan and setting out their priorities and work programmes for the year ahead. Performance against objectives regularly reviewed by senior management. 5. There are arrangements in place for regular budget monitoring and the reporting of significant variances to senior management. 6. The Capital Strategy report identifies how capital expenditure, capital financing and treasury management actively contribute to the provision of the corporate objectives and is reported to the Audit Committee for monitoring. 7. The Council works to maximise its resources by delivering	● Budget report/Medium Term Financial Strategy ● Corporate Plan ● Annual performance report to Council ● Operational Plans ● Budget monitoring reports ● Performance reports ● Key performance indicators ● Standard committee reports ● Capital Strategy ● Investment Strategy ● Treasury Management Strategy ● Audit reporting quarterly to Audit Committee ● Committee Minutes ● Annual Audit Plan

D – Determining the interventions necessary to optimise the achievement of the intended outcomes		
Commitment	**Procedures**	**Examples of evidence**
	services as efficiently as possible, working in partnership with others and using other providers where these are the best options. 8. Periodic internal audit reviews consider the effectiveness of controls and efficiency of processes 9. The council engages expertise from outside the authority when it does not have the necessary capacity or skills in-house. 10. A standard format report for decision making is used to ensure decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved.	

E – Developing the entity's capacity, including the capability of its leadership and the individuals within it		
Commitment	**Procedures**	**Examples of evidence**
● Developing the Council's capacity ● Developing the capability of the entity's leadership and other individuals	1. The Council sets out a clear statement of the roles and responsibilities of councillors and officers in its Constitution. The scheme of delegation within the Constitution makes clear what matters are reserved for collective decision-making by Cabinet or committees. 2. A Protocol on councillor/officer relations is used to aid effective communication between councillors and officers and to clarify their respective roles and appropriate ways of working. 3. The Council's Head of Paid Service is responsible and accountable to the authority for its operational management. 4. When working in partnerships, the council ensures that councillors are clear about their roles and responsibilities, both individually and collectively, in relation to the partnerships and to the Council. 5. Employee behaviours are clearly defined in a framework document	● Constitution ● Transformation programme ● Record of training activity ● Staff behaviours framework ● Grievance and disciplinary procedures ● Councillor induction and briefing programme ● Staff induction programme ● Training opportunities ● Partnership working e.g East Kent Audit Partnership ● Apprenticeship Levy opportunities ● Elearning modules ● Job descriptions ● Job evaluation process ● HR Policies ● Training Plan

E – Developing the entity's capacity, including the capability of its leadership and the individuals within it		
Commitment	**Procedures**	**Examples of evidence**
	6. All employees joining the Council are offered an induction programme and regular reviews with their manager. 7. All councillors are provided with an induction programme and regular briefing and training offers to meet their needs. Attendance is recorded. 8. Councillor training is mandatory in order to sit on Planning, Licensing and Audit Committees. All councillors receive Code of Conduct awareness training. 9. Identifying where partnership working can achieve added value is carried out via service reviews and benchmarking against other local authorities and commercial organisations to improve the use of resources and provide further opportunities for staff to progress their career. 10. Investment in training, Apprenticeship Levy opportunities and an ELearning programme are utilised to develop staff at all levels. 11. The Transformation process is identifying skills gaps. Job descriptions are being updated to develop and maintain an effective workforce. HR Policies are also updated to give clear guidance to managers and staff and to maintain the health and wellbeing of the workforce. 12. A training plan is reviewed and agreed annually by Management Team that identifies areas where training will be required during the year. This is informed by the corporate objectives, direction and projects identified for that year and the skills that are required to successfully deliver those outcomes. 13. Councillors receive regular briefings on a range of topics to ensure they are 14. kept informed and updated. 15.	● Training calendar

F – Managing risks and performance through robust internal control and strong public financial management		
Commitment	**Procedures**	**Examples of evidence**
• Managing Risk • Managing Performance • Robust Internal Control • Managing data • Strong public financial management	1. The Council has a Risk Management Policy, supplemented by procedures and guidance. 2. The council ensures that risk management is embedded into the culture of the authority; with managers at all levels recognising that risk management is part of their job. 3. The council undertakes risk assessments in all areas of activity where it is necessary to do so, including those covered by Health and Safety legislation. 4. A corporate risk register is reported to the Audit Committee on a quarterly basis detailing the council's strategic risks and mitigation. 5. The Council respects the personal data it holds and will comply with the data protection principles in all of its business activities. 6. The Council respects the privacy of members of the public when carrying out investigations and ensures that privacy is only interfered with when the law permits and there is clear public interest justification. 7. The Council's Service Director Finance and Procurement is the Chief Financial Officer and S151 Officer and is responsible for ensuring the lawfulness and financial prudence of decision making. They are responsible for the financial affairs of the council and ensuring that appropriate advice is given on all financial matters. 8. Finance Officers support both long term achievement of outcomes, transformational change and short term operational performance by identifying risks and working with Budget Holders to secure good stewardship. Quarterly budget monitoring is carried out and reported to Management Team, with biannual budget monitoring and outturn reports being reported to Cabinet and Full Council. 9. Audit reviews provide a level of assurance on the adequacy of internal controls and of risks to the councils function/systems including ensuring full compliance with relevant laws, internal policies and procedures.	• Risk Management Policy and procedures • Data Protection Policy and Information Security framework • Regulation of Investigatory Powers Act 2000 – Guidance • Compliance with the CIPFA Role of the S151 Officer in Local Government • Internal audit plan • Annual review by external financial auditors • Member/Officer Protocol • Constitution • Financial Regulations and Contract Standing Orders • Quarterly budget monitoring • Management Team minutes • Annual Internal Audit report • Audit Committee Minutes • Annual Governance Statement • Risk Register

F – Managing risks and performance through robust internal control and strong public financial management		
Commitment	**Procedures**	**Examples of evidence**
	10. Audit reporting independently to Audit Committee quarterly 11. Audit reporting on the overall adequacy and effectiveness of the framework of governance, risk management and robust controls.	

G – Implementing good practices in transparency, reporting, and audit to deliver effective accountability		
Commitment	**Procedures**	**Examples of evidence**
● Implementing good practice in transparency ● Implementing good practices in reporting ● Assurance and effective accountability	1. The Council makes sure members of the public have access to information about the workings of the Council. It makes clear what information is routinely published through its website and publication scheme and responds promptly to requests for information. 2. Shared services arrangements with other local authorities or partners document their governance arrangements, which are clear, open and accountable. We have client management arrangements in place to manage 3. the relationship with shared service partners 4. The Council maintains an independent Internal Audit function, with a risk-based annual plan, designed to test regularly that the Council's policies and processes operate in practice and that the Council complies with legislation and good practice. 5. The Head of Internal Audit produces an annual opinion on the Council's internal control environment and the risk management framework to meet the requirements of the Public Sector Internal Audit Standards. 6. The Head of Internal Audit Opinion is used to inform an Annual Governance Statement, which is signed by the	● Council website ● Audit Committee Terms of Reference ● Publication scheme ● Freedom of Information requests ● Monitoring reports to Audit Committee ● Annual Governance Statement ● Shared service collaboration agreements ● Strategic Risk Register ● Annual External Audit letter ● Internal Audit programme ● Councillor remuneration reports ● Internal Audit reports ● Audit Committee Minutes ● Transparency data on website

G – Implementing good practices in transparency, reporting, and audit to deliver effective accountability		
Commitment	**Procedures**	**Examples of evidence**
	Head of Paid Service and Leader of the Council, and approved by the Audit Committee. 7. The Council also agrees an annual work plan with its External Auditors to test the Council's response to major legislation and the soundness of its financial and governance processes. 8. Recommendations arising from internal and external audit and inspection processes are used to inform future decision-making. 9. Internal Audit function is an independent appraisal process whose staff have direct access to Councillors. 10. All audit findings are reported to Audit Committee quarterly including follow up reports to assess implementation of recommendations and improvements to control systems. 11. The Council uses an Independent Remuneration Panel to give advice on payments for Members and considers their advice when setting the Members' Allowance Scheme. 12. The Panel operates in an open and transparent manner, making their agendas, reports and minutes available to the public. 13. The Members' Allowance Scheme is also made available to the public and on the Council's website. The scheme is reviewed every four years, with increases in allowances aligned to staff pay awards. 14. The Annual Governance Statement detailing the robust arrangements in place for assessing overall governance of the council. 15. Transparency data updated annually and published on the councils website. This includes Officers emoluments over £50k and Trade Union time.	

Monitoring and reporting of the Local Code of Corporate Governance

The Council will undertake an annual review of its corporate governance arrangements to ensure continuing compliance with best practice to provide assurance that they are adequate and operating effectively in practice. Where reviews of the corporate governance arrangements have revealed gaps, actions will be planned to enhance the governance arrangements accordingly.

The Council will prepare an Annual Governance Statement which will be submitted to the Audit Committee for consideration and will form part of the Council's annual Statement of Accounts.

The Governance Statement will include:

- an acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control) and reference to the authority's code of governance;
- a reference to and assessment of the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment;
- an opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework;
- a reference to how issues raised in the previous year's annual governance statement have been resolved; and
- a conclusion including a commitment to monitoring implementation as part of the next annual review.

The Annual Governance Statement will be signed by the Leader of the Council and the Head of Paid Service on behalf of the Council

Review of effectiveness

The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of East Kent Audit Partnership's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

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

DESCRIPTION OF KEY ELEMENTS	ROLE	REVIEW OF EFFECTIVENESS
1. The Authority	The Authority's objectives from 2021 to 2024 are set out in its Corporate Plan. These are based on 4 main priorities:	A wide range of control and reporting mechanisms are in place to monitor performance against the Corporate Plan and Community Strategy.

DESCRIPTION OF KEY ELEMENTS	ROLE	REVIEW OF EFFECTIVENESS
	1). To support the districts' economy to recover then grow by creating a district that supports enterprise and innovation in order to drive economic development through our policies, by the use of our extensive assets and the use of technology alongside our commitment to sustainability and the environment. 2) To deliver a better social housing service for our tenants by creating a housing service that is as well funded as possible so that we can provide the services tenants need, when they need them. The council will also use every way we can to buy, build and maintain a stock of quality homes. 3) To deliver better waste collection services for all residents. The council recognises that poor performance in this area has been an issue for years. The aim is to deliver a significant improvement in service over 2020/21 levels by the end of the 2019 to 2023 council. 4) To use our enforcement powers to protect the district. The council will redouble its efforts to use the enforcement powers it has to take action against those who break the rules and affect the quality of life enjoyed by everyone else. At the same time ensuring the rule breakers should be the ones expected to pay for this work wherever possible.	These include both internal and external mechanisms such as: the Audit and Governance Role Risk Management Budget Monitoring & Control Performance Management and monitoring4 Procedures set out in the Council's Constitution External Resident / Public consultation and Satisfaction Surveys.
2. The Council Committee Structure	In May 2022, the council changed governance arrangements, moving away from the committee model back to the leader and cabinet model. The Cabinet is made up of the Leader, who is elected by the Council, and a small number of Cabinet Members appointed by the Leader. Each Cabinet	Full Council retains responsibility for non-executive functions such planning and licensing. **Planning Committee** determines the most significant applications and those called in by ward councillors.

DESCRIPTION OF KEY ELEMENTS	ROLE	REVIEW OF EFFECTIVENESS
	Member is designated a portfolio of responsibilities by the Leader. **The Cabinet** is responsible for providing political leadership to the council. They determine policies within the envelope of the policy framework and recommend the budget to Full Council. Robust Scrutiny arrangements are in place to support the governance model. **The Overview and Scrutiny Committee** provides pre-decision scrutiny of significant items prior to Cabinet. Public speakers are encouraged to speak at this committee to maximise input prior to decisions being made. The **Scrutiny Sub-Committee** reviews performance and has the power to 'call-in' cabinet decisions. There was one call-in during 2022/23, relating to the City Centre Street Trading proposals. The **Whitstable Harbour Board** is a cabinet committee that oversees strategic activity in the harbour.	The **Licensing Sub-Committee** meets regularly, primarily to determine premises licence applications where objections have been received. Full Council elected to set up a number of other committees to perform specific functions, including **Audit, Standards, General Purposes and Appointments Committees**. A number of partnership committees are in place, including the **Joint Transportation Board, East Kent Services Committee and the South Thames Gateway Building Control Partnership.** Details of the responsibilities assigned to each committee can be found in Terms of Reference in the Council's Constitution, alongside the delegations from Full Council to Officers. **Working Groups** have been retained within the current arrangements to undertake in-depth reviews. Each working group comprises a cross-party group of councillors supported by officers who are tasked with reviewing specific issues. Details of the review topics undertaken this year can be found in this report under Number 6 for Assurance Mechanisms .
3. The Audit Committee	The Audit Committee's role is split into 3 areas: Audit – overseeing and reviewing the results of internal and external audit activity; Regularity – overseeing and reviewing procedures relating to contract procedures, financial regulations, codes of conduct, anti-fraud & corruption and	The Audit Committee approved the 2022/23 Audit Plan in March 2022 setting out the programme of work for reviewing and monitoring the activities of the Council, in particular its internal financial controls. An annual report providing a summary of the audit work carried out in 2021/22 was presented at the July 2022 Committee meeting. The majority of reviews had been given a substantial or reasonable assurance and

DESCRIPTION OF KEY ELEMENTS	ROLE	REVIEW OF EFFECTIVENESS
	whistle-blowing arrangements, risk management and complaints; Accounts – reviewing the annual accounts and considering whether there are any matters of concern to raise. There is also a Governance Committee to monitor the workings of the Council's constitution and recommend changes.	there were no major areas of concern that would give rise to a qualified opinion. A comparison of the risk statistics from other local authorities in the East Kent Audit Partnership was presented at the September Committee meeting. Quarterly reports of the Strategic Risk Register are made to this committee after they have been updated by Senior Managers and Directors. The Audit Committee approved the draft annual accounts at the September 2022 meeting. The final accounts were formally approved in January 2023 once the statutory overriding process and amendments had been completed.
4. Complaint Handling under the Localism Act	Under the Localism Act 2011, arrangements have been adopted for dealing with complaints of misconduct by councillors.	The council along with many others, has adopted the Kent-wide code of conduct for councillors and a standardised procedure for handling a complaint as agreed by the Kent Secretaries. This has been reviewed during 2022 and proposed amendments have been presented to the Standards Committee and Governance Committee with a recommendation that Council accept the proposed changes to the Member's Code of Conduct and the Arrangements for dealing with Councillor Conduct complaints. Council considered the same on 22 February 2023. During 2022/23 to date there were 7 new complaints received regarding the conduct of 11 Councillors and all concluded within the financial year with none outstanding to carry forward to 2023/24. All were resolved informally and no cases proceeded to an investigation.

DESCRIPTION OF KEY ELEMENTS	ROLE	REVIEW OF EFFECTIVENESS
5. Internal Audit	The role of Internal Audit is “To give an independent opinion on the adequacy, effectiveness and operation of controls within the Authority’s systems”. Internal Auditors have direct access to the Chair of the Audit Committee if required. They provide a regular update to the Committee at each of the quarterly meetings and attend any special meetings that may be convened during the year.	The council has very high levels of assurance in respect of all of its main financial systems and the majority of its governance arrangements The overall opinion of the System of Internal Controls in operation throughout 2022-23 based on the work of the East Kent Audit Partnership is presented in their annual report to the Governance and Audit Committee in July. As at 31 January 2024 the Internal Auditors had completed 165 days of review equating to 72% (against the target at that time of 83%) of planned days completion. A regular schedule of follow up audits are undertaken to ensure management have implemented the action plans arising from each audit. Members can see full details within the Internal Audit Annual Report 2023/24 presented to the Audit Committee in July 2024. The East Kent Audit Partnership have considered the Public Sector Internal Audit Standards (PSIAS) Checklist and completed self-assessment, which showed that internal audit is currently working towards full compliance. An External Quality Assessment (EQA) against the PSIAS is planned for 2024. As part of EKAP’s quality monitoring arrangements a satisfaction questionnaire is completed by the managers of the service after every audit enabling the officers involved to comment on the conduct and outcome of the audit. This information is used to

DESCRIPTION OF KEY ELEMENTS	ROLE	REVIEW OF EFFECTIVENESS
		monitor quality and inform self assessment for continuous improvement.
6. Other reviews / Assurance Mechanism	The Performance Board, comprising The Head of Paid Service, relevant Director and representatives from Finance and Commissioned Services meets with each Director and each Head of Service to review their Service Specification and Operating Plan, which includes agreed KPI's and the latest financial monitoring statement. The Corporate Plan key Performance Indicators for 2021-24 were agreed by the Policy Committee on 20 April 2022. The Audit Committee receives the annual assurance report from our external auditors (Grant Thornton). Councillor Working Groups undertake regular reviews of particular service areas. The programme is overseen by the Overview and Scrutiny Committee.	Performance updates on housing performance were submitted to the Scrutiny Sub-Committee and Cabinet in November/December 2022. The update on corporate performance was submitted to the Scrutiny Sub-Committee and Cabinet in March/April 2023. The following Councillor led Task and Finish Working Groups were in place during 2022/23: · Seaside Byelaws working group · South Quay and harbour working group · Public Conveniences Review · Biodiversity working group · Waste, recycling and litter working group · Planning enforcement working group

Significant Governance Issues

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

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

The risk register is updated on an ongoing basis from the following sources: -

- Risks identified by individual officers during the course of their work,
- Risks identified from both internal and external audit reports.
- Risks identified in the course of the performance review processes.
- Risks identified from assessments carried out in other council reports notably Project Scope and Project Brief documents.
- Risks identified during the course of the Risk Register review process, notably by Senior Managers, Directors, Management Team and Councillors at Audit and Governance Committees.
- Risks identified at Management Team and Departmental Team meetings.

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

- Directors and Service Heads
- Management Team
- Audit Committee

The Strategic Risk Register is a public document updated and published quarterly in the agenda of the Audit Committee. Significant governance issues are identified on the risk register together with the steps the council is taking to either control or mitigate these risks including reference to other action plans and reports where appropriate. The highest risk score that can be given to a significant issue is 25 (5 for impact and 5 for likelihood). The council had a total of 24 risks on the strategic risk register at 31st March 2023, scores ranging from 25 down to 6.

The highest risk scores were concerned with:

- Balancing the Budget
- Miscellaneous loans to outside bodies
- Housing Assets – Maintenance and Compliance
- Housing Demand

During 2022/23 there were a number of national and international events that have had a huge impact on the work the council undertakes and these events have also increased the financial burden. The arrival of a large number of Ukrainian refugees meant that staff resources had to be diverted to support these communities along with the Afghanistan refugees already being supported.

The legacy of the restrictions during the Covid pandemic and the subsequent struggle for the business community to grow their businesses back to pre-covid levels has led to the closure of a number of businesses in the district. This has impacted on the council's ability to achieve the expected rental income. The unexpected fuel shortages and the current cost of living crisis has all resulted in increased spending on supplies and the extra financial burden on our residents has impacted on greater use of all the services the council provides to support the community.

Throughout the uncertain year the council has continued to move forward to continually improve the services provided to local business and residential community. The contract and excellent relationship the council has with Canenco continues to strengthen the services for waste collection and street cleansing and by focussing on digital progression the customer now has easier access to services and information in a number of areas.

Several large projects have been completed. The Riverside development is almost complete with multiple units let, and the relocation of the council offices project is now fully underway.

During the 2022/23 financial year the council continued with the transformation process to improve the digital platform for customers and staff, and realigning the councils organisational structure to support improved customer services. This has been a major project for the council which has required commitment and input from all staff alongside their everyday work. More than 75% of staff are now in place in their new roles. The project is planned for completion by July 2023 and the consultation for phase 4 (final phase) of the project is currently underway.

Some of the major planned projects for 2023/24 are the move back in house for ICT services and Revenues and Benefits. Added to this are the Levelling Up Funded projects to enhance the district and provide more community spaces.

Management realises that there is a huge amount of work to do to set future balanced budgets, to improve the quality of our housing stock and to provide quality social housing for our residents. Therefore the highest scoring risks during the first part of the 2023/24 financial year are likely to remain as:

- Balancing the Budget
- Housing Assets – Maintenance and Compliance
- Housing Demand

The Strategic Risk Register will continue to be monitored, updated and reported to the Audit Committee.

Throughout yet another very challenging financial year the robust controls in 2022/23 remained relevant and have been effective.

Conclusion and Corporate Governance Opinion

Taking account of the controls and actions taken listed above we are confident that we have satisfactory governance arrangements in place and the financial management arrangements conform to the governance requirements of the CIPFA framework for Delivering Good Governance and the statement on the Role of the Chief Financial Officer in Local Government.

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

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

Signed: ……….................……………………………………………………………………
Leader

Signed: ……….................……………………………………………………………………
Head of Paid Service on behalf of Canterbury City Council

Statement of Accounts

for the Year Ended

31 March 2023

(subject to audit)

Nicci Mills CPFA
Chief Financial Officer

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Information Accompanying the Statement of Accounts

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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 2023. It includes:

- An explanation of each of the main financial statements;
- A look back at financial and non-financial performance in 2022/23;
- 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 2023. The accounts are set out on pages 13 to 86. 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 CIPFA 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 (CIES)**

  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.

- **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) or 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 CIES. 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 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.

- **Group Accounts**

  The Council has full ownership of a subsidiary company – Canterbury Environment Company Ltd. Group accounts are prepared combining the financial statements of the company with Canterbury City Council. The group account figures are not currently materially different to that of the Council, but as the company delivers large contracts on behalf of the Council, group accounts are considered to be qualitatively material.

- ***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 2022/23

Following the retirement of the Chief Executive in December 2021, the Council started the year with a new senior management structure which does not have a Chief Executive post, instead three strategic directors work together with one of them being designated Head of Paid Service. The Council also implemented a new governance system in May 2022, moving from a committee system to a Cabinet system.

As the country continued to recover from the pandemic, the war in Ukraine started in February 2022 causing the cost of energy to increase significantly and driving up inflation to a 41 year high of 11.1% in October 2022. In response to rising inflation the Bank of England have increased interest rates continually throughout the year reaching a high of 5.25% in August 2023 compared to 0.1% in December 2021.

The significant increases in energy costs and inflation have resulted in a cost of living crisis and the Government have continued to ask local authorities to fulfil additional duties to support local businesses and residents with the continuation of the Covid Additional Relief Fund, Household Support Fund and the new Energy Rebate Scheme. The Council, together with other councils, has also continued to support refugees from Afghanistan temporarily housed in the district and supported local families to provide accommodation for people displaced by the war in Ukraine.

In October 2022 Cabinet agreed to disband East Kent ICT and that the ICT service be returned in-house. The service is being brought back in a phased approach which started in October 2022 and will run through to April 2024.

Financial performance in 2022/23

This section gives an overview of the financial performance of the Council in 2022/23 for both the General Fund and the Housing Revenue Account, including reasons for significant variations from planned expenditure.

It has been another exceptionally difficult year financially for the Council. The Council set its budget for 2022/23 in February 2022. Recovery from the pandemic, the impact of the ongoing war in Ukraine, inflationary pressures and the cost of living crisis have continued to have a fundamental impact on the Council's finances and resources.

Services continued to recover at varying rates from the pandemic throughout the year and the Council put in place various assumptions when setting the budget for 2022/23. At the budget setting stage it was estimated that the use of reserves to balance the budget for 2022/23 would be £0.9m from the budget stabilisation reserve.

Following the huge uncertainty of the last two financial years, and continued uncertainty around the future of local government funding, the Council continued to work to minimise expenditure in all areas.

The final outturn for the General Fund was an underspend of £13,000 after the government support funding and contributions to reserves. The actual use of reserves to balance the budget for 2022/23 was as per the budget allocated, however further contributions to reserves were also made, resulting in a net contribution to the Budget Stabilisation reserve. Further details can be found in Note 9 to the accounts. This will have positive benefits for the Council's financial resilience in the forthcoming years.

The job market continues to be very buoyant making it difficult to recruit to certain positions or get the right person with the right level of skills. This means that resources are overstretched and the use of overtime, fixed term contracts and temporary staff has been required in some areas to ensure service delivery to support residents during a challenging economic climate and cost of living crisis.

For the Housing Revenue Account, the quarter three forecast predicted that the year end position would be a £550,000 deficit by the year end. The actual position at the year end was worse at a £969,000 deficit, which was significantly worse than the budgeted surplus position of £661,000.

2. Details of major variances against outturn

General Fund Revenue Expenditure

The General Fund accounts for all revenue (day to day) services other than those provided in respect of council housing.

In overall terms, the outturn position can be reconciled to the original budget position as set out below.

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

Service Area	Net Budget £'000	Net Outturn £'000	Net Variance ()= saving £'000
Corporate Management	8,229	6,183	(2,046)
Corporate Services	3,700	4,102	402
Strategy & Improvement	3,694	3,680	(14)
Place Services	(9,039)	(8,206)	833
People Services	11,457	12,387	930
Case Services (People & Place)	416	490	74
Total net expenditure	**18,457**	**18,636**	**179**
Levy Account Surplus	(324)	(538)	(214)
NDR allocation	(4,936)	(4,986)	(50)
New Homes Bonus	(1,604)	(1,604)	0
Council Tax	(12,454)	(12,454)	0
Collection Fund adjustment	0	72	72
Parish precepts	861	861	0
Total income sources	**(18,457)**	**(18,649)**	**(192)**
Net position	**0**	**(13)**	**(13)**

The main variances between the budget and the outturn are set out below by service.

Activity	**Variance (£000) ()=favourable**	**Explanation of variance between budget and outturn**
Interest and Financing Costs (within Corporate Management)	(843)	This is due to additional interest income being received on investments due to interest rates being higher than budgeted and lower financing costs on borrowing due to delays in the capital programme. Interest rates are increasing significantly so this is not an ongoing saving.
Property and Regeneration (within Place Services)	871	The variance is mainly due to rental income shortfalls across the portfolio as a result of the ongoing impact of COVID-19. There was also a delay in completing the Riverside Development resulting in lower income than anticipated.
Estate and Asset Management (within People Services)	221	This is mainly due to a reduction in Military Road office space rental income as a result of the loss of a tenant and reduction in demand for renting office space and also additional costs for building security.
Parking – car parks (within Place Services)	(547)	Parking has continued to recover more quickly than anticipated. The budget for 2023/24 is set at a higher level than that for 2022/23.
Parking – park & ride (within Place Services)	270	The park and ride activity has not recovered in line with other parking income.

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 £'000	Net Outturn £'000	Net Variance ()=saving £'000
General management	4,168	3,755	(413)
Special services	2,330	2,409	79
Rent, rates & charges	404	596	192
Repairs & maintenance	6,396	7,118	722
Bad debt provision	250	382	132
Rents & service charges receivable	(27,029)	(26,821)	208
Total HRA direct budgets	**(13,481)**	**(12,561)**	**920**
Support costs	1,024	1,041	17
Capital charges	5,380	5,412	32
Total HRA indirect budgets	**6,404**	**6,453**	**49**
Self financing debt	6,416	6,416	0
(Surplus)/Deficit	**(661)**	**308**	**969**

The overall revenue outturn position for 2022/23 was a deficit of £0.3m, an increase of £1m on the £661k budgeted surplus. The explanations for the main variance to the budget are set out below.

Activity	**Variance (£000) ()=favourable**	**Explanation**
General Management	(413)	There was an overspend of £275,000 across General Management budgets largely due to expenditure and vacancy savings targets not being met. This has been offset by a contribution from reserves of £688,000 to cover overspends within the HRA budgets.
Special Services	79	Largely due to increased electricity and gas costs as a result of increasing rates.
Rents, Rates and Charges	192	This is due to Council Tax void payments exceeding budget and increases in insurance premiums.
Repairs and Maintenance	722	Void works were overspent by £627,000 and reactive repairs were overspent by £267,000 due to a large volume of works being required and increased costs due to inflation. Improvements in contract management are being sought to ensure tighter control over spend.
Bad Debt Provision	132	The increase required to the provision was higher than anticipated when the budget was set.
Rent & Service Charges Receivable	208	When the budget was set it was expected that the Council would have been able to progress with its decision to introduce affordable rents for some of its properties but this discussions with the Department for Levelling Up, Housing and Communities are taking much longer than anticipated.

		Garage rents are also under budget due to a high number of voids. The future of garage lettings is currently being reviewed.

Capital Expenditure

General Fund Capital Expenditure

Capital expenditure relates to spending on assets which last for more than one year. The capital programme for 2022/23 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 2022/23 was £11.2m. This was financed by grants, capital receipts and reserves. 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**
Corporate Services	1,176	153	1,025	2
People Services	4,284	845	3,606	167
Place Services	8,336	4,720	3,682	66
Strategy & Improvement	4,692	2,126	2,813	247
Total Capital Projects	**18,488**	**7,844**	**11,126**	**482**

The main expenditure items in 2022/23 were the continuation of the Canterbury Riverside development, Kingsmead Field Housing, St George's Public Realm and Leisure Centre refurb.

HRA Capital Expenditure

	2022/23 Net Budget £'000	**2022/23 Net Outturn £'000**	**2022/23 Net Position £'000**
Planned Maintenance and Improvement Schemes			
39 Castle Street, Canterbury	191	394	203
External Works	440	1,272	832
Fire Prevention Works	250	248	(2)
External Wall Insulation Works	3,300	3	(3,297)
Internal Works	1,330	1,302	(28)
Major Works Void	400	697	297
Water Hygiene Major Works	150	28	(122)
Middle Wall, Whitstable	670	777	107
Procurement, Contract Management & Contingency	100	8	(92)
	6,831	**4,729**	**(2,102)**
Other Schemes			
Housing Development Schemes	0	28	28
IT Improvements	84	26	(58)
Parham Road, Canterbury	125	776	651
Purchase of Dwellings	1,400	1,850	450
	1,609	**2,680**	**1,071**
Total	**8,440**	**7,409**	**(1,031)**

The 2022/23 and 2023/24 capital programmes were both set for each individual year only and contained no projections for following years because of the need to review the many elements of the budget including planned maintenance and development programmes, now that the service has been brought in-house. The capital programme going forward is currently being developed as we continue to gain a much better understanding of the condition of the Council's housing and build robust data on this.

£6,831,000 was budgeted for planned maintenance and improvement in 2022/23 across the capital projects listed in the table above. This was to be allocated to specific budget lines for the capital works required in-year as identified and in the light of stock condition surveys and the Asset Management Strategy. The overall budget was constantly monitored throughout the year and allocated to the planned maintenance and improvement requirements as they were identified. However budgets were not constantly realigned to the allocated spend hence the various under and over spends shown across the schemes. The External Wall Insulation project for high rise properties, Windsor House, Whitstable and Elizabeth Court and Margaret Court in Herne Bay has slipped due to difficulties in engaging fire engineers to scope the works required. However, on site surveys have now taken place and the report for the findings was received in January. Reviews are underway to determine whether more intrusive surveys are necessary and to establish the extent of the work required for the buildings to be and remain compliant. Work will start in 2023/24 and a budget of £1,800,000 has already been built into the 2023/24 capital programme, so slippage will not be required.

The remaining properties in the Parham Road scheme were completed and handed over in 2021/22. However, there was a delay in the final valuation for the works completed which has resulted in the overspend of £651,000.

£1,400,000 for the purchase of five properties at Kingsmead Field, which was planned for in 2021/22 was delayed and reprogrammed for completion in September 2022. These properties were acquired in January 2023 at a cost of £1,850,000 based on market prices, resulting in an overspend of £450,000.

There is a total unbudgeted spend of £28,000 across the small housing development projects due to development potential assessments and financial viability studies being undertaken on council land across the district. 146 plots across the district have been assessed during the last two years. Architects and pre-application planning advice is currently being sought on two potential development sites at East Street, Canterbury (Sturry Road Social Club) and Warwick Road, Canterbury. Many of the other plots being identified are unlikely to be suitable for housing development due to their small size, but it is expected that they will produce a modest pipeline of ongoing development activity in the short to medium term.

Balance sheet

The Council's net assets increased from £358m to £471m as at 31 March 2023. The main changes year on year were:

- an increase of £13m in the value of council dwellings;
- a decrease in current assets of £13m offset by a decrease in current liabilities of £27m due to Government grants being repaid;
- increased cashflow led to reductions in both short term and long term borrowing of £8m (planned principal repayments were made and no new long term loans taken out); short term borrowing is expected to increase in 2023/24 as Government grant schemes come to an end; and
- a decrease in the pension deficit of £78m.

The two biggest liabilities on the balance sheet are long term borrowing at £152m and the pension deficit at £10m, both of which have reduced this year. The majority of the Council's debt is with the Public Works Loan Board at a fixed rate of interest, with an average of 2.74%. The Council has continued its policy of using short term borrowing to partly fund its capital programme. This has reduced borrowing costs but exposes the Council to interest rate variations.

Overall the Council’s balance sheet has become less liquid over time, as capital expenditure has been funded from capital receipts, withdrawing from short term investments and short term external borrowing. In the medium and longer term, as internal borrowing and short term borrowing is repaid, 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 the Council's net liability of £179m whereas the estimated assets are valued at £169m leading to a net deficit of £10m. The deficit has decreased by £78m.

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 LLP, an independent firm of actuaries, on behalf of Kent County Council based upon the full valuation of the scheme as at 31 March 2022. The fund is next due for revaluation as at 31 March 2025 and new contribution rates will apply from April 2026.

Significant changes to local authority financial regime in 2022/23

There have been no significant changes to the local authority financial regime in 2022/23.

Future challenges

General

The future for local government funding remains very uncertain, with no information available on funding from April 2024 onwards. In setting out its medium term financial plan (MTFS) the Council has assumed reductions in government funding.

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 runs to the end of the current Council term only.

The items set out below are considered the main issues that will have an impact on the Council’s budget strategy and financial planning in the medium term.

Inflation and energy prices - As inflation levels continue to increase, this will have a significant impact on all areas of services in 2023/24 and beyond, only adding to an existing volatile financial situation. The Council’s direct costs are affected as are contract prices across the board. The current economic climate is having a major impact on businesses in premises owned by the Council, with many businesses struggling to keep up with the increasing costs of fuel, inflationary pressures and energy costs. It is forecast that in 2023/24 income may be down by £1.2m when compared to the 2022/23 budget and the budget for 2023/24 has been adjusted to reflect the reduced income level. The 2022/23 outturn and contributions to reserves will help to support future spending.

Staffing – Staff shortages mean that the Council may struggle to deliver its services and will be paying higher pay rates than previously estimated. Higher staff turnover reduces corporate knowledge and requires investment in recruitment and induction. Contract prices and delivery will also be affected by the economy wide staff shortages.

Staff at our waste collection contractor Canenco started strike action over pay in July. Several offers have been put forward to the GMB union but have been rejected and so recycling collections continue to be distupted for residents. Alternative collection arrangements are being considered and resolution continues to be a priority for the Council.

Borrowing costs – Increasing interest rates will have an impact on future borrowing costs. The majority of existing loans are on a fixed interest basis so are not affected.

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 another very challenging year, the City Council has substantially delivered its financial plan for 2022/23 and preparatory work is in place to deliver further savings in future years whilst continuing to strive to minimise the impact on services.

I would like to take the opportunity to thank all staff within the Council for their efforts in delivering the Council's financial plans this year. That work has put the Council in the best possible position to deal with the serious financial challenges facing the Council in 2023/24 onwards.

Thanks are due in particular to the finance team for their work producing this Statement of Accounts at a time when their workload substantially exceeded their capacity.

Nicci Mills
Service Director Finance and Procurement and s151 officer
23/08/2023

Comprehensive Income and Expenditure Statement for the year ended 31 March 2023

This statement shows the accounting cost of providing services in the year ended 31 March 2023, in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The taxation position is shown in the Movement in Reserves Statement.

2021/22					2022/23		
Gross Exp	**Income**	**Net Exp**		**Note**	**Gross Exp**	**Income**	**Net Exp**
£'000	**£'000**	**£'000**			**£'000**	**£'000**	**£'000**
6,265	(7,057)	(793)	Corporate Management		11,924	(12,391)	(467)
38,859	(34,588)	4,271	Corporate Services		36,807	(31,642)	5,165
5,527	(945)	4,582	Strategy & Improvement		4,663	(303)	4,360
24,619	(29,781)	(5,161)	Place Services		35,193	(29,282)	5,911
22,617	(11,994)	10,622	People Services		24,684	(10,125)	14,559
716	(178)	538	Case Services (People & Place)		794	(162)	632
25,192	(25,784)	(591)	Housing Revenue Account		27,028	(26,889)	139
123,795	**(110,327)**	**13,468**	**Cost of Services**		**141,093**	**(110,794)**	**30,299**
			Other Operating Expenditure				
0	(2,838)	(2,838)	Loss/(Gain) on Sales of Assets		0	(3,974)	(3,974)
979	0	979	Parish Council Precepts & Drainage Board Levy		1,010	0	1,010
539	0	539	Housing Capital Receipts Cont to Govt Pool		0	0	0
			Financing & Investment Income & Expenditure				
4,869	0	4,869	Interest Payable on Debt		4,806	0	4,806
1,799	0	1,799	Net interest on the net defined benefit liability	28.1	2,226	0	2,226
3	(200)	(197)	Investment interest and other income		95	(694)	(599)
0	(250)	(250)	Investment properties income and expenditure		0	(250)	(250)
0	0	0	Change in Fair Value of Investment Properties		2,005	0	2,005
141	(97)	44	(Surplus)/deficit from Trading Operations		113	(68)	45
90	(259)	(169)	Impairment adjustments		373	(473)	(100)
			Taxation & Non-Specific Grant Income & Expenditure				
351	(1,972)	(1,621)	Recognised Capital Grants & Contributions	20	356	(3,851)	(3,495)
0	(8,093)	(8,093)	Collection Fund (Income) & Expenditure		0	(12,671)	(12,671)
35	(12,294)	(12,259)	Non ring-fenced Government Grants	20	794	(9,130)	(8,336)
132,601	**(136,330)**	**(3,729)**	**(Surplus)/deficit on provision of services**		**152,871**	**(141,905)**	**10,966**
		12,834	(Surplus)/deficit on revaluation of non current assets	18.1			(42,103)
		(8,571)	Remeasurement of the net defined benefit liability	28.1			(81,684)
		533	**Total Comprehensive (Income) & Expenditure**				**(112,821)**

Balance Sheet as at 31 March

2022 £'000	2022 £'000		Notes	2023 £'000	2023 £'000
		Property, Plant and Equipment	10		
327,272		Council dwellings		340,508	
257,762		Other land and buildings		260,866	
19,332		Infrastructure assets		18,708	
10,169		Vehicles, plant and equipment		8,972	
1,702		Community assets		2,005	
27,872		Assets under construction		26,259	
	644,109				657,318
	12,327	Heritage Assets	10.1		14,064
	4,348	Investment Property	10		2,343
	1,246	Intangible Assets	10		1,382
	662,029				675,107
	1,285	Payments in Advance	14.3		1,188
	2,979	Long-term debtors	13		2,808
	666,293	**Total Long-term Assets**			**679,103**
		Current Assets			
32,420		Short-term investments	12.4	15,116	
83		Inventories		70	
9,942		Short-term debtors	14	6,812	
307		Payments in advance	14.3	387	
5,589		Assets held for sale	10.2	10,026	
(20)		Cash and cash equivalents	15	2,105	
	48,322				34,516
	714,615	**Total Assets**			**713,619**
		Current Liabilities			
(50,044)		Creditors	16	(37,188)	
(26,525)		Deposits and receipts in advance	16.1	(10,185)	
(22,829)		Short term borrowing	12	(26,434)	
(5,866)		Provisions	32	(6,089)	
	(105,264)				(79,896)
	609,351	**Total Assets less Current Liabilities**			**633,723**
		Long Term liabilities			
(196)		Other long-term liabilities		(127)	
(162,856)		Long-term borrowing	12	(152,337)	
(57)		Capital grants receipts in advance		(58)	
(88,206)		Liability related to defined benefit	28.2	(10,344)	
	(251,315)				(162,866)
	358,036	**Net Assets**			**470,857**
		Usable Reserves	17		
(2,239)		General Fund		(2,052)	
(893)		Housing Revenue Account		(586)	
(34,685)		Earmarked reserves	9	(32,122)	
(2,290)		Capital receipts reserve		(4,148)	
(5,456)		Capital grants unapplied		(8,052)	
	(45,564)				(46,960)
		Unusable Reserves	18		
(244,684)		Revaluation reserve	18.1	(285,811)	
(160,720)		Capital adjustment account	18.2	(149,069)	
480		Financial instruments adjustment a/c		432	
88,206		Pensions reserve	18.3	10,344	
0		Deferred capital receipts		0	
4,017		Collection fund adjustment account		17	
230		Short-term accumulating absences a/c		190	
	(312,472)				(423,897)
	(358,036)	**Total Reserves**			**(470,857)**

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 CIES. 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 2022/23	**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 2022 carried forward	(2,239)	(34,685)	**(36,924)**	(893)	0	(2,291)	(5,456)	**(45,564)**	**(312,472)**	**(358,036)**
Movement in reserves during 2022/23										
(Surplus) or deficit on provision of services	10,322	0	**10,322**	644	0	0	0	**10,966**	**0**	**10,966**
Other comprehensive income and expenditure	(121)	0	**(121)**	121	0	0	0	**0**	**(123,787)**	**(123,787)**
Total comprehensive Income and Expenditure	10,201	0	**10,201**	765	0	0	0	**10,966**	**(123,787)**	**(112,821)**
Adjustments between accounting basis and funding basis under regulations (Note 6)	(8,137)	0	**(8,137)**	228	0	(1,857)	(2,596)	**(12,362)**	**12,362**	**0**
Net (increase)/decrease before transfers to Earmarked Reserves	2,064	0	**2,064**	993	0	(1,857)	(2,596)	**(1,396)**	**(111,425)**	**(112,821)**
Transfers to/(from) Earmarked Reserves (Note 9)	(1,877)	2,563	**686**	(686)	0	0	0	**0**	**0**	**0**
(Increase)/Decrease in year	187	2,563	**2,750**	307	0	(1,857)	(2,596)	**(1,396)**	**(111,425)**	**(112,821)**
Balance at 31 March 2023 carried forward	(2,052)	(32,122)	**(34,174)**	(586)	0	(4,148)	(8,052)	**(46,960)**	**(423,897)**	**(470,857)**

Movement in Reserves 2021/22	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 2021 carried forward	(2,000)	(39,100)	**(41,100)**	(2,553)	0	(1,254)	(5,097)	**(50,003)**	**(308,566)**	**(358,569)**
Movement in reserves during 2021/22										
(Surplus) or deficit on provision of services	(3,584)	0	**(3,584)**	(146)	0	0	0	**(3,729)**	**0**	**(3,729)**
Other comprehensive income and expenditure	(121)	0	**(121)**	121	0	0	0	**0**	**4,263**	**4,263**
Total comprehensive Income and Expenditure	(3,705)	0	**(3,705)**	(24)	0	0	0	**(3,729)**	**4,263**	**533**
Adjustments between accounting basis and funding basis under regulations (Note 6)	7,817	0	**7,817**	1,747	0	(1,037)	(360)	**8,168**	**(8,168)**	**0**
Net (increase)/decrease before transfers to Earmarked Reserves	4,112	0	**4,112**	1,723	0	(1,037)	(360)	**4,438**	**(3,906)**	**533**
Transfers to/(from) Earmarked Reserves (Note 9)	(4,351)	4,415	**64**	(64)	0	0	0	**0**	**0**	**0**
(Increase)/Decrease in year	(239)	4,415	**4,176**	1,659	0	(1,037)	(360)	**4,438**	**(3,906)**	**533**
Balance at 31 March 2022 carried forward	(2,239)	(34,685)	**(36,924)**	(893)	0	(2,291)	(5,456)	**(45,564)**	**(312,472)**	**(358,036)**

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.

2021/22 £'000		2022/23 £'000
(3,729)	**Net (surplus) or deficit on the provision of services**	**10,966**
(9,732)	Depreciation and impairment	(11,151)
(5,631)	Impairment and downward revaluations	(16,722)
(154)	Amortisation	(290)
(170)	Change in impairment for bad debts	(96)
(20,233)	(Increase)/decrease in creditors	18,415
(18,200)	Increase/(decrease) in debtors	(428)
10	Increase/(decrease) in inventories	(13)
(5,137)	Movement in pension liability	(3,822)
0	Movement in investment property values	(2,005)
(4,315)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(8,501)
28	Other non-cash items charged to the net surplus or deficit on the provision of services	31
(63,534)	**Adjustments to net surplus or deficit on the provision of services for non-cash movements**	**(24,582)**
1,621	Capital grants credited to the surplus or deficit on the provision of services	3,495
5,907	Proceeds from the sale of property, plant and equipment	10,353
(59,735)	**Net Cash flows from operating activities**	**232**
24,566	Purchase of property, plant & equipment, investment property and intangible assets	14,829
204,496	Purchase of short-term and long-term investments	205,396
(5,907)	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(10,353)
(175,979)	Proceeds from investments	(222,700)
(1,689)	Other receipts from investing activities	(3,860)
45,487	**Net Cash flows from Investing Activities**	**(16,688)**
(13,000)	Cash receipts of short- and long-term borrowing	(15,000)
34,145	Repayments of short- and long-term borrowing	21,913
(6,173)	Other payments for financing activities	7,418
14,972	**Net Cash flows from Financing Activities**	**14,331**
724	**Net (increase) or decrease in cash and cash equivalents**	**(2,125)**
(704)	Cash and cash equivalents at the beginning of the reporting period	20
20	Cash and cash equivalents at the end of the reporting period	(2,105)

Expenditure and Funding Analysis for the year ended 31 March 2023

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 CIES. Details of the adjustments can be found in note 7.

2021/22				2022/23		
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
5,987	(6,779)	(793)	Corporate Management	6,183	(6,649)	(466)
3,330	941	4,271	Corporate Services	4,102	1,062	5,164
3,574	1,007	4,582	Strategy & Improvement	3,680	680	4,360
(6,544)	1,383	(5,161)	Place Services	(8,206)	14,116	5,910
10,385	237	10,622	People Services	12,387	2,173	14,560
388	150	538	Case Services (People & Place)	490	142	632
1,659	(2,251)	(591)	Housing Revenue Account	308	(169)	139
18,779	**(5,311)**	**13,468**	**Cost of Services**	**18,944**	**11,355**	**30,299**
			Other Operating Expenditure			
0	(2,838)	(2,838)	Loss/Gain on Sales of Assets	0	(3,974)	(3,974)
0	979	979	Parish Council Precepts & Drainage Board Levy	0	1,010	1,010
0	539	539	Housing Capital Receipts Cont to Govt Pool	0	0	0
			Financing & Investment Income & Expenditure			
0	4,869	4,869	Interest Payable on Debt	0	4,806	4,806
0	1,799	1,799	Net interest on the net defined benefit liability	0	2,226	2,226
0	(198)	(198)	Investment Interest Income	0	(599)	(599)
0	(250)	(250)	Investment properties income and expenditure	0	(250)	(250)
0	0	0	Change in fair value of investment properties	0	2,005	2,005
0	45	45	Surplus from Trading Operations	0	45	45
0	(170)	(170)	Impairment adjustments	0	(100)	(100)
			Taxation & Non-Specific Grant Income & Expenditure			
0	(1,621)	(1,621)	Recognised Capital Grants & Contributions	0	(3,495)	(3,495)
(10,945)	2,852	(8,093)	Income from the Collection Fund	(11,521)	(1,150)	(12,671)
(6,613)	(5,646)	(12,259)	Non ring-fenced Government Grants	(7,128)	(1,208)	(8,336)
(17,558)	**361**	**(17,197)**	**Other Income and Expenditure**	**(18,649)**	**(684)**	**(19,333)**
1,220	**(4,950)**	**(3,729)**	**(Surplus)/Deficit on provision of services**	**295**	**10,671**	**10,966**
(4,553)			Opening General Fund and HRA balances	(3,133)		
1,220			(Surplus)/Deficit on General Fund and HRA bal	295		
0			Use of Housing Revenue Account reserve	0		
200			Use of General Fund reserve	200		
(3,133)			**Closing General Fund and HRA balances**	**(2,638)**		

1. Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2022/23 financial year and its position at the year-end of 31 March 2023. The Council 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 2022/23 and the Service Reporting Code of Practice 2022/23, 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.

1.1.1 Qualitative Characteristics of Financial Information

Relevance - in accordance with IAS 8 (Accounting Polices, Changes in Accounting Estimates and Errors) the objective of the principal statements is to provide information on the Council’s financial performance that is useful for assessing the stewardship of public funds and for making economic decisions.

Reliability - the financial information can be depended upon to represent accurately the substance of the transactions that have taken place. The Accounts are unbiased, free from material error, have been prepared in a prudent manner and have included all issues that would assist users to make adequate decisions on the Council’s financial standing.

Comparability - the Accounts contain comparative information about the Council so that performance may be compared with a prior period.

Understandability - although a reasonable knowledge of accounting and local government is required, all efforts have been made in the preparation of the financial statements to ensure that they are as easy to understand as possible.

Materiality - an item of information is material to the Accounts if its misstatement or omission might reasonably be expected to influence assessments of the Council’s stewardship and economic decisions.

1.1.2 Accounting Concepts

Going concern – it is assumed that the Council will continue in operational existence for the foreseeable future and accordingly the Accounts have been prepared on a going concern basis.

Accruals - the financial statements, other than the Cash Flow Statement, have been prepared on an accruals basis. The accruals basis requires the non-cash effects of transactions to be reflected in the financial statements for the accounting period in which those effects are experienced and not in the period in which any cash is received or paid.

Primacy of legislation - local authorities derive their power from statute and their financial and accounting framework is closely controlled by legislation. Where there is conflict between a legal requirement and an accounting standard, the legal requirement will take precedence.

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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

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

- Expenses in relation to services received (including 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. The Council therefore acts as agent on behalf of these major preceptors. 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.

Billing authorities are required by statute to maintain a separate fund (ie the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities and major preceptors share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

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

The Balance Sheet includes the Council's share of the year end balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Other material revenue streams

The Council has a number of other material revenue streams and the approach to recognition is on an accruals basis as set out above with the following exceptions:

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.

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 Council'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 Council'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 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 Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an 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 Council. 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 Council 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 a corporate service segment in the CIES at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council 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 Council 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 Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices using a discount rate of 4.8% (based on the indicative rate of return on the Merrill Lynch AA rated corporate bond).

The assets of Kent Pension Fund attributable to the Council 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 CIES 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 CIES.

ii) Net interest on the net defined benefit liability, ie net interest expense for the Council – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the CIES – 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 at the beginning of the period – taking into account any changes in the net defined benefit liability 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 – 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 Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

1.7.4 Discretionary Benefit

The Council 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 CIES or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

1.10 Financial Instruments

1.10.1 Financial Liabilities

Financial Liabilities are recognised on the Balance Sheet when the Council 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 CIES 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 CIES 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 CIES 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 CIES 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 CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The Council 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 CIES 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 based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. Financial assets are classified into three types:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (ie where the cash flows do not take the form of a debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council 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 CIES 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 financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

The Council 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 CIES (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 CIES 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 CIES 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.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors).

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses. If it is determined that no objective evidence of impairment exists for an individually assessed debtor balance, the debtor balance shall be included in a group of debtor balances that are individually assessed for impairment.

Financial Assets Measured at Fair Value through Profit or Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

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

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 Council when there is reasonable assurance that:

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

Amounts recognised as due to the Council are not credited to the CIES 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 CIES.

Where capital grants are credited to the CIES, 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 future economic benefits or service potential will flow from the intangible asset to the Council.

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.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation is not permitted to have an impact on the General Fund Balance. The costs are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment account.

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 CIES. 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 Council 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 Council 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 CIES).

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 Council 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 CIES 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 Council as Lessor

i) Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (where Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the CIES 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 CIES).

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

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

ii) Operating leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental Income is credited to the Other Operating Expenditure line in the CIES. 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 it 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 where the total cost needs to be reflected at service level. In those cases 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 Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

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, infrastructure 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).
- assets held for sale - fair value, determined as the amount that would be paid for the asset in its highest and best use.
- 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 current 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 CIES.

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 CIES.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the CIES 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.

Additions of plant, vehicles and equipment are subject to depreciation from the subsequent year following addition of the asset.

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 CIES. 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 CIES as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CIES 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 are 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 Council'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 Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council 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 CIES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. 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 Council 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 CIES. 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, local taxation, retirement and employee benefits and do not represent usable resources for the Council – 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 CIES in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so 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 His Majesty's Revenue and Customs. VAT receivable is excluded from income.

1.23 Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or
b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council’s financial statements are categorised within the fair value hierarchy, as follows:

a) Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
b) Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
c) Level 3 – unobservable inputs for the asset or liability

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

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

International Accounting Standard 8 requires the Council to disclose the expected impact of new standards that have been issued, but not yet adopted.

• IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government until April 2024, whilst allowing earlier adoption where authorities are able to do so.

The following amendments to accounting standards in 2023/24 do not have a material impact on the Council:

• Definition of accounting estimates (Amendments to IAS 8).

• Disclosure of accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2).

• Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12).

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) There remains a high degree of uncertainty about future levels of funding for local government and the economic challenges facing the Council. 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.

b) The Council has reviewed the use of the vehicles (non-current assets) used by the park and ride contractors in order to deliver the contract to establish the type of lease arrangement that covers their use. The non-current assets used to deliver the contract have a useful life significantly greater than the duration of the contract and therefore the current assets are not recognised in the council's accounts.

c) 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.

d) In February 2018, this Council, together with Dover and Thanet district councils, entered into a contract with Civica UK Ltd ("Civica"). 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.

   In December 2018 the Council transferred the operation of the Marlowe Theatre to the Marlowe Theatre Trust, and recently revised the partnership agreement with the Council's leisure services delivery partner Active Life Limited. There are similar arrangements in place with regard to the pension arrangement as Civica.

   For the 2022/23 accounts therefore the Council has decided not to reflect these arrangement in its statement of accounts as it considers that the probability of the guarantee being realised is minimal and so the value of the potential transaction is insignificant.

e) The Council made payments to households to help with energy bills as part of the Energy Bill Support Scheme which was funded from central government. Where the Council was making payments based on central government set criteria, and the control, discretion and risk were held by central government, these transactions are deemed to have been carried out on an agency basis, and as such do not form part of these accounts.

f) The Council wholly owns Canterbury Environment Company Ltd (Canenco). In view of the company being a 100% owned subsidiary it is judged that the Council's interest in it is a material one and as a result group financial statements have been prepared in addition to the Council's single entity 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 Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2023 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 (£10.344m)	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 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £12.3m. Changes to assumptions in 2022/23 have contributed to a decrease in the net liability of £77.9m.
Business Rate Appeals (£5.042m)	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. Government guidance and a Kent wide adopted methodology has been used to estimate the provision foer the outcome of the 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. If successful appeals increased by 1%, the impact to the council would be £50,000 for each year of the claim, totalling approximately £400,000.
Valuation of property, plant and equipment (PPE) (£675.108m)	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 methodology used to value PPE is as set out in note 10.4 to the accounts. When the fair values of investment properties, surplus assets 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, judgement is required in establishing fair values. These judgements 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	The Council uses a 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, and similarly to value its PPE. 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 £730k which is not material. If the valuation of the overall PPE increased by 1%, the impact to the council would be £6.8m.

	Level 1 inputs are not available, the authority's internal RICS qualified valuers identify the most appropriate valuation techniques to determine fair value.	
Bad debt provisions (impairment allowance) (£4.835m)	The Council has bad debt provisions of £4.835m 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. If collection rates were to deteriorate by 1% an extra £484k would be required to set aside as an allowance.

5 Events after the Reporting Period

The Statement of Accounts was authorised for issue by the Chief Financial Officer on 23 August 2023. 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 2023, 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 Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

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 Council 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 Council 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 2022/23	Usable Reserves						
	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Major Repair Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement 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	(7,101)		(4,340)				11,441
Revaluation on Property, Plant & Equipment	(12,132)		(6,711)				18,843
Movement in market value of investment property	(2,005)						2,005
Capital grant and contributions applied	900		0				(900)
Revenue Expenditure funded from Capital under Statute	(2,254)		0				2,254
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(4,323)		(2,056)				6,379
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement							
Statutory provision for the financing of capital investment	8,527						(8,527)
Capital expenditure charged against GF & HRA balances	182		5,850				(6,031)
Adjustments primarily involving the Capital Grants Unapplied Account							
Capital grants and contributions unapplied credited to CIES	(356)					356	0
Capital grants and contributions unapplied	2,952					(2,952)	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	6,452		3,901		(10,353)		0
Use of CRR to finance capital expenditure					8,557		(8,557)
Contribution from CRR to finance payments to the Government capital receipts pool	0						0
Repayments of soft loans and Hsg Act advances					(61)		61
Adjustments primarily involving the Major Repairs Reserve							
Reversal of Major Repairs Allowance credited to the HRA			4,340	(4,340)			0
Use of the Major Repairs Reserve to finance new capital expenditure				4,340			(4,340)
Voluntary transfer to Major Repairs Reserve				0			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	47						(47)
Adjustments involving the Pension Reserve							
Reversal of items relating to retirement benefits debited or credited to CIES	(7,325)		(1,422)				8,747
Employers contributions and direct payments to pensioners payable in year.	4,267		658				(4,925)
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	4,001						(4,001)
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	33		7				(40)
Total Adjustments 2022/23	(8,137)	0	228	0	(1,857)	(2,596)	12,362

Accounting and Funding basis adjustments 2021/22	Usable Reserves						
	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Major Repair Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement 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	(5,710)		(4,176)				9,885
Revaluation on Property, Plant & Equipment	(2,098)		(4,779)				6,877
Movement in market value of investment property	0		0				0
Capital grant and contributions applied	853		409				(1,261)
Revenue Expenditure funded from Capital under Statute	(603)		0				603
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(1,044)		(2,026)				3,069
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement							
Statutory provision for the financing of capital investment	7,188						(7,188)
Capital expenditure charged against GF & HRA balances	555		5,720				(6,275)
Adjustments primarily involving the Capital Grants Unapplied Account							
Capital grants and contributions unapplied credited to CIES	(351)					351	0
Capital grants and contributions unapplied	711					(711)	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	2,601		3,307		(5,907)		0
Use of CRR to finance capital expenditure					4,393		(4,393)
Contribution from CRR to finance payments to the Government capital receipts pool	(539)				539		0
Transfer from deferred CRR upon receipt of cash							0
Repayments of soft loans and Hsg Act advances					(62)		62
Adjustments primarily involving the Major Repairs Reserve							
Reversal of Major Repairs Allowance credited to the HRA			4,176	(4,176)			0
Use of the Major Repairs Reserve to finance new capital expenditure				4,176			(4,176)
Voluntary transfer to Major Repairs Reserve				0			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	43						(43)
Adjustments involving the Pension Reserve							
Reversal of items relating to retirement benefits debited or credited to CIES	(8,217)		(1,546)				9,763
Employers contributions and direct payments to pensioners payable in year.	3,992		634				(4,626)
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	10,316						(10,316)
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	122		28				(150)
Total Adjustments 2021/22	7,817	0	1,747	0	(1,036)	(360)	(8,168)

7 Note to the expenditure and funding analysis

Adjustments from the General Fund to arrive at the CIES Amounts:

2021/22 Adjustments for capital purposes	2021/22 Net change for the pensions adjustments	2021/22 Other differences	2021/22 Total adjustments		2022/23 Adjustments for capital purposes	2022/23 Net change for the pensions adjustments	2022/23 Other differences	2022/23 Total adjustments
£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
(5,907)	(1,394)	522	(6,779)	Corporate Management	(4,645)	(1,883)	(121)	(6,649)
7	777	156	941	Corporate Services	43	608	411	1,062
404	667	(64)	1,007	Strategy & Improvement	404	492	(216)	680
2,025	1,471	(2,113)	1,383	Place Services	13,182	1,064	(130)	14,116
264	1,018	(1,044)	237	People Services	721	771	681	2,173
0	171	(20)	150	Case Services (People & Place)	0	143	(1)	142
4,779	617	(7,646)	(2,251)	Housing Revenue Account	6,711	394	(7,274)	(169)
1,573	**3,327**	**(10,211)**	**(5,311)**	**Cost of Services**	**16,416**	**1,589**	**(6,650)**	**11,355**
				Other Operating Expenditure				
(2,838)	0	0	(2,838)	Loss/(Gain) on Sales of Assets	(3,974)	0	0	(3,974)
0	0	979	979	Parish Council Precepts & Drainage Board Levy	0	0	1,010	1,010
539	0	0	539	Housing Capital Receipts Cont to Govt Pool	0	0	0	0
				Financing & Investment Income & Expenditure				
4,428	0	440	4,869	Interest Payable on Debt	3,219	0	1,587	4,806
0	1,799	0	1,799	Net interest on the net defined benefit liability	0	2,226	0	2,226
0	0	(198)	(198)	Investment Interest Income	0	0	(599)	(599)
0	0	(250)	(250)	Investment properties income and expenditure	0	0	(250)	(250)
0	0	0	0	Change in fair value of investment properties	2,005	0	0	2,005
0	11	33	45	Surplus from Trading Operations	0	7	38	45
0	0	(170)	(170)	Impairment adjustments	0	0	(100)	(100)
				Taxation & Non-Specific Grant Income & Expenditure				
(1,621)	0	0	(1,621)	Recognised Capital Grants & Contributions	(3,495)	0	0	(3,495)
0	0	2,852	2,852	Income from the Collection Fund	0	0	(1,150)	(1,150)
0	0	(5,646)	(5,646)	Non ring-fenced Government Grants	0	0	(1,208)	(1,208)
			(4,950)	**Difference between (surplus) or deficit and the Comprehensive Income and Expenditure Statement (surplus) or deficit on the provision of services**				**10,671**

8 Expenditure and income analysed by nature

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

2021/22		2022/23									
		Corporate Management	Corporate Services	Strategy & Improvement	Place Services	People Services	Case Services (People & Place)	Housing Revenue Account	Net Cost of Services	Sources of Finance	Total
£'000	**Expenditure**	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
26,664	Employee benefits expenses	982	4,047	2,553	6,438	5,227	791	4,264	**24,302**	2,259	**26,561**
42,772	Other service expenses	7,340	3,895	1,646	9,438	14,765	1	12,384	**49,468**	4,103	**53,571**
(810)	Support service recharges	(1,418)	(910)	(170)	865	(34)	(103)	758	**(1,011)**	0	**(1,011)**
33,715	Housing benefit payments	0	28,926	0	0	2,310	0	0	**31,236**	(65)	**31,171**
19,709	Depreciation, amortisation, impairment	3	8	478	18,282	1,889	0	11,085	**31,745**	2,005	**33,750**
3,378	Interest payments	0	0	0	36	0	0	0	**36**	3,449	**3,485**
979	Precepts and levies	0	0	0	0	0	0	0	**0**	1,010	**1,010**
539	Payments to Housing Capital Receipts pool	0	0	0	0	0	0	0	**0**	0	**0**
(2,838)	Gain on the disposal of assets	0	0	0	0	0	0	0	**0**	(3,974)	**(3,974)**
124,110	**Total Expenditure**	**6,907**	**35,966**	**4,506**	**35,059**	**24,157**	**689**	**28,491**	**135,775**	**8,788**	**144,563**
	Income										
(24,090)	Housing tenancy rental income	0	0	0	0	0	0	(25,034)	**(25,034)**	0	**(25,034)**
(39,632)	Fees, charges and other service income	776	(810)	60	(28,233)	(4,082)	(58)	(2,592)	**(34,938)**	(614)	**(35,552)**
(198)	Interest and investment income	0	0	0	0	0	0	0	**0**	(2,150)	**(2,150)**
(22,135)	Income - council tax & non-domestic rates	0	0	0	0	0	0	0	**0**	(16,455)	**(16,455)**
(41,783)	Government grants and contributions	(8,149)	(29,992)	(206)	(915)	(5,516)	0	(726)	**(45,504)**	(8,901)	**(54,405)**
(127,839)	**Total Income**	**(7,373)**	**(30,802)**	**(146)**	**(29,148)**	**(9,598)**	**(58)**	**(28,352)**	**(105,476)**	**(28,121)**	**(133,597)**
(3,729)	**Surplus/Deficit on provision of services**	**(467)**	**5,164**	**4,360**	**5,911**	**14,559**	**631**	**139**	**30,299**	**(19,333)**	**10,966**

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 2022/23.

Reserve	Note	Balance at 31 March 2021 £'000	Transfers to reserve £'000	Transfers from reserve £'000	Balance at 31 March 2022 £'000	Transfers to reserve £'000	Transfers from reserve £'000	Balance at 31 March 2023 £'000
Computer/equipment	a	(234)	(46)	0	(279)	(46)	0	(325)
Buildings maintenance	b	(1,015)	(11)	3	(1,022)	(11)	0	(1,032)
Commercial property stabilisation reserve	c	(653)	(909)	0	(1,561)	(493)	553	(1,502)
Restructure reserve	d	0	(259)	0	(259)	(85)	33	(312)
Open spaces maintenance	e	(807)	0	13	(794)	0	17	(778)
Budget stabilisation reserve	f	(11,804)	(5,936)	4,089	(13,651)	(2,721)	2,656	(13,716)
Carry forward reserve	g	(1,033)	(1,436)	327	(2,141)	(943)	1,192	(1,892)
Whitstable Harbour reserves	h	(701)	(166)	720	(146)	(31)	146	(31)
NDR reserve	i	(20,169)	(5,784)	14,612	(11,340)	(1,467)	3,970	(8,837)
Capital reserve	j	(791)	0	274	(517)	0	33	(484)
Planning reserves	k	(176)	(1,080)	0	(1,256)	(675)	0	(1,930)
Other General Fund reserves		(944)	(442)	381	(1,005)	(606)	355	(1,256)
Total of Reserves		(38,323)	(16,069)	20,420	(33,973)	(7,078)	8,955	(32,095)
Net Transfer - General Fund					4,351			1,877
HRA Reserves (excl major repairs reserve)								
Subsidence and other reserves	h1	(776)	(2)	67	(712)	(2)	688	(26)
Total HRA Reserves		(776)	(2)	67	(712)	(2)	688	(26)
Net Transfer - HRA					64			686
Total Reserves		**(39,100)**	**(16,071)**	**20,486**	**(34,685)**	**(7,080)**	**9,643**	**(32,122)**

Earmarked Reserves

a) The computer/equipment reserve is held to finance ICT equipment which needs replacing.

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

c) The commercial property stabilisation reserve is used to smooth the commercial property income fluctuations across financial years.

d) The restructure reserve is 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 surpluses from the harbour account to spend on the Harbour in future years.

i) 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. The significant difference in 2021/22 is due to the Council receiving additional Section 31 grant payments as the Government expanded business rates reliefs in response to the pandemic in 2020/21 and paying the government and preceptors amount back in 2021/22. Due to the required accounting treatment, the additional Section 31 grants are held by the billing authority rather than going through the Collection Fund. A deficit is held on the Collection Fund, which is then recovered from the billing authority over future years. This sum has therefore been transferred into the reserve to meet the costs of the Council’s share of the deficit in the future. The Council’s proportion of the payment of these grants, for the Collection Fund, was £14m.

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

k) The planning reserves are used to finance development management in the district and to finance the costs of local plan inquiries.

h1) The HRA subsidence reserve was released to revenue in 2022/23 as liabilities arising from subsidence of housing stock properties are now 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, and car park investments.

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	Community Assets	Assets Under Construction	Total Tangible assets	Investment Properties	Heritage Assets	Intangible Assets	Total
Cost or Valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 April 2022 (b/fwd)	331,280	264,016	21,452	1,706	27,872	646,327	4,348	12,341	1,701	664,717
Additions	7,381	1,388	870	0	3,847	13,486	0	0	426	13,912
Disposals	(2,056)	0	(234)	0	0	(2,290)	0	0	0	(2,290)
Acc Dep'n w/o	0	(3,796)	0	0	0	(3,796)	0	(10)	0	(3,806)
Reclassifications/Transfers	0	(1,083)	0	0	(8,291)	(9,374)	0	0	0	(9,374)
Revaluations to Revaluation Reserve	14,730	17,783	0	304	2,447	35,264	0	1,747	0	37,011
Revaluations to CIES	(6,690)	(10,840)	0	0	384	(17,146)	(2,005)	0	0	(19,151)
Other movements in Cost or Valuation	0	0	0	0	0	0	0	0	0	0
At 31 March 2023	344,645	267,468	22,088	2,010	26,259	662,470	2,343	14,078	2,127	681,019
Depreciation and impairment										
At 1 April 2022 (b/fwd)	(4,008)	(6,254)	(11,284)	(4)	0	(21,550)	0	(14)	(456)	(22,021)
Charge for 2022/23	(4,137)	(4,145)	(2,066)	(1)	0	(10,349)	0	(10)	(289)	(10,648)
Disposals	0	0	234	0	0	234	0	0	0	234
Acc Dep'n w/o	4,008	3,796	0	0	0	7,804	0	0	0	7,804
Reclassifications	0	1	0	0	0	1	0	0	0	1
Impairments to CIES	0	0	0	0	0	0	0	10	0	10
At 31 March 2023	(4,137)	(6,602)	(13,116)	(5)	0	(23,860)	0	(14)	(745)	(24,620)
Net Book Value at 31 March 2023	340,508	260,866	8,972	2,005	26,259	638,610	2,343	14,064	1,382	656,399

10 Property plant and equipment, investment properties and intangible assets

Cost or Valuation	Council Dwellings £'000	Land and Buildings £'000	Plant, Vehicles & Equipment £'000	Community Assets £'000	Assets Under Construction £'000	Total Tangible assets £'000	Investment Properties £'000	Heritage Assets £'000	Intangible Assets £'000	Total £'000
At 1 April 2021 (b/fwd)	348,136	270,076	15,705	1,706	23,888	659,512	4,348	12,286	1,041	677,187
Additions	4,900	1,774	5,974	0	11,167	23,816	0	0	681	24,497
Disposals	(2,026)	(2,289)	(227)	0	0	(4,542)	0	0	(20)	(4,562)
Acc Dep'n w/o	0	(4,168)	0	0	0	(4,168)	0	(9)	0	(4,177)
Reclassifications/Transfers	0	(5,590)	0	0	0	(5,590)	0	0	0	(5,590)
Revaluations to Revaluation Reserve	(22,215)	6,391	0	0	0	(15,824)	0	64	0	(15,760)
Revaluations to CIES	(4,698)	(2,179)	0	0	0	(6,877)	0	0	0	(6,877)
Other movements in Cost or Valuation	7,183	0	0	0	(7,183)	0	0	0	0	0
At 31 March 2022	331,280	264,016	21,452	1,706	27,872	646,327	4,348	12,341	1,701	664,717
Depreciation and impairment										
At 1 April 2021 (b/fwd)	(4,172)	(6,857)	(10,161)	(3)	0	(21,194)	0	(14)	(322)	(21,531)
Charge for 2021/22	(4,008)	(3,565)	(1,350)	(1)	0	(8,924)	0	(9)	(154)	(9,087)
Disposals	0	0	227	0	0	227	0	0	20	247
Acc Dep'n w/o	4,172	4,168	0	0	0	8,340	0	9	0	8,349
Reclassifications	0	1	0	0	0	1	0	0	0	1
Impairments to CIES	0	0	0	0		0	0	0	0	0
At 31 March 2022	(4,008)	(6,254)	(11,284)	(4)	0	(21,550)	0	(14)	(456)	(22,021)
Net Book Value at 31 March 2022	327,272	257,762	10,169	1,702	27,872	624,777	4,348	12,327	1,246	642,697

Infrastructure Assets	31/03/2022	31/03/2023
NBV @ 1 April	20,130	19,332
Additions	0	167
Depreciation/Impairment	(798)	(791)
NBV @ 31March	**19,332**	**18,708**

In accordance with the Temporary Relief offered by the Update to the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements. This does not impact the balance sheet as this reports net book value.

The authority has determined in accordance with Regulation [30M England or 24L Wales] of the Local Authorities (Capital Finance and Accounting) (England/Wales) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

	31/03/2022	31/03/2023
Infrastructure assets	19,332	18,708
Other PPE assets	642,697	656,399
Total PPE assets	**662,029**	**675,107**

10.1 Heritage Assets

FRS 102 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	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, 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 Place Services area, and a small team look after and preserve the exhibits.

The service operated two museums within the district during 2022/23. Independent groups have been established in Herne Bay and Whitstable to take on the management of the museums on the Council's behalf.

The current valuation for art in the museums for insurance purposes is £8,302,000. Other museum exhibits are valued for insurance purposes at £886,000 and various civic and public art commissions are valued at £2,103,000 giving an overall total of £11,291,000 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 2022		Asset	At 31 March 2023	
£'000	£'000		£'000	£'000
841		Museum Exhibits	886	
8,786		Public Art and Painting Collection	10,405	
	9,627	**Museum contents and artefacts**		**11,291**
972		Roman Site Butchery Lane	972	
30		Canterbury Castle	30	
161		Littlebourne Barn	161	
489		Central Parade Clock Tower	489	
1,048		The Westgate	1,121	
	2,700	**Land and Buildings**		**2,773**
	12,327	**Total**		**14,064**

10.2 Assets held for sale

31 March 2022		Transfers	Revaluations	Assets sold	31 March 2023
£'000		£'000	£'000	£'000	£'000
3,523	Car park land	0	978	0	4,501
950	Business centres	500		0	1,450
1,117	Surplus land	8,292	162	(5,970)	3,601
0	Surplus Property	581	369	(475)	475
5,589		**9,373**	**1,509**	**(6,445)**	**10,026**

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 where depreciated, are depreciated at historical cost.

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 2022/23 were carried out internally with the exception of Whitefriars, which was valued by Knight Frank.

Assets category	Date of last valuation	Basis of valuation	Value of revalued assets £'000	Valuer
Council dwellings	March 2023	A	344,645	Adam Wright, MRICS
Other land and buildings	March 2023	B	221,615	Adam Wright, MRICS
Surplus assets	March 2023	C	0	Adam Wright, MRICS
Investment properties	March 2023	C	2,343	Adam Wright, MRICS
Infrastructure assets	March 2023	B	43,965	Liam Wooltorton, IEng, MICE
Assets held for sale	March 2023	C	10,026	Adam Wright, MRICS

Basis of valuation

A Current Value - Existing Use Value – Social Housing reflects discounted value in accordance with MHCLG guidance to allow for the use of property as rented social housing

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 Current Value - Fair value for properties categorised as Assets Held for Sale, surplus or investment properties

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

The Fair Values of retail assets have been assessed using the investment method reflecting market conditions, sale prices and achieved rents for similar assets in the local authority area as at the valuation date. 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.

Following the Grenfell Fire tragedy in June 2017, the MHCLG published 'Advice for Building Owners of Multi-Storey, Multi-Occupied Residential Buildings' (the consolidated advice note (CAN)) in January 2020. Following publication of the MHCLG's advice the RICS produced a Guidance Note 'Valuation of properties in multi-storey, multi occupancy residential buildings with cladding' 1st edition, March 2021 (the RICS Guidance Note), which came into effect on 5th April 2021. When Savill's valued the housing stock in March 2022 their opinion of value for Canterbury City Council's three high rise blocks, Elizabeth Court and Margaret Court, Herne Bay and Windsor House Whitstable had regards to both the CAN and the RICS Guidance Note. Until the full extent of the remediation works that may be required to the external wall insulation at these blocks and the specific costings for these works are known, Savills withheld the value and attributed a nil value to the three blocks. These blocks continue to be held at a nil value as at 31 March 2023.

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. 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.

2021/22	Capital Expenditure and Financing	2022/23
£'000		£'000
266,239	**Opening Capital Financing Requirement**	**267,925**
	Capital Expenditure in year:	
13,330	Property, plant and equipment	10,233
11,167	Assets under construction	3,847
2,141	Revenue expenditure funded from capital under statute see note 11.1	3,996
26,638		18,076
(5,720)	**HRA loan repayment**	(5,847)
	Sources of Finance	
(4,393)	Capital receipts	(8,557)
(122)	Loan repayments	(127)
(2,799)	Government grants and other contributions	(2,642)
(4,730)	Revenue and Reserves	(4,522)
(7,188)	Revenue and provision for repayment of loans (MRP)	(8,527)
(19,232)		(24,376)
267,925	**Closing Capital Financing Requirement**	**255,778**
	Explanation of movements in year	
(5,720)	HRA loan repayment	(5,847)
(7,188)	MRP	(8,527)
(122)	Soft loan repayments	(127)
14,716	Increase in underlying need to borrow (unsupported by government financial assistance).	2,355
1,685	**Movement of Capital Financing Requirement**	**(12,147)**

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.

2021/22		2022/23			
Net Exp		Gross Exp	Gov Grant	Other Contr	Net Exp
£'000		£'000	£'000	£'000	£'000
0	Disabled facilities and improvement grants	1,196	(1,168)	(28)	0
603	Other including parish council grants	2,800	(271)	(275)	2,254
603	Total	**3,996**	**(1,439)**	**(303)**	**2,254**

The financing of this expenditure was grants and contributions of £1.742m. Adding this to the £0.9m non REFCUS grant funded capital expenditure reconciles to the total capital grants applied to finance capital expenditure £2.642m (see table above).

12. Financial Instruments

12.1 Categories of Financial Instruments

The following categories of financial instrument (and non-financial assets/liabilities) are disclosed on the face of the Balance Sheet as at 31 March.

Financial Assets	Non-Current				Current					
	Investments		Debtors		Investments		Debtors		**Total**	Total
	31 March 2023 £'000	31 March 2022 £'000	**31 March 2023 £'000**	31 March 2022 £'000	**31 March 2023 £'000**	31 March 2022 £'000	**31 March 2023 £'000**	31 March 2022 £'000	**31 March 2023 £'000**	31 March 2022 £'000
Amortised cost	**0**	0	**341**	353	**0**	0	**6,690**	7,787	**7,031**	8,141
Fair Value through profit and loss	**0**	0	**0**	0	**15,116**	32,420	**0**	0	**15,116**	32,420
Cash and cash equivalents	**0**	0	**0**	0	**0**	0	**2,105**	797	**2,105**	797
Soft loans	**0**	0	**2,467**	2,625	**0**	0	**0**	0	**2,467**	2,625
Total financial assets	**0**	0	**2,808**	2,979	**15,116**	32,420	**8,795**	8,584	**26,719**	43,983
Non-financial assets	**0**	0	**0**	0	**0**	0	**122**	**2,155**	**122**	2,155
Total	**0**	0	**2,808**	2,979	**15,116**	32,420	**8,917**	10,739	**26,841**	46,138

Financial Liabilities	Non-Current				Current					
	Borrowings		Creditors		Borrowings		Creditors		**Total**	Total
	31 March 2023 £'000	31 March 2022 £'000	**31 March 2023 £'000**	31 March 2022 £'000	**31 March 2023 £'000**	31 March 2022 £'000	**31 March 2023 £'000**	31 March 2022 £'000	**31 March 2023 £'000**	31 March 2022 £'000
Amortised cost	**(152,337)**	(162,856)	**0**	0	**(26,434)**	(22,829)	**(29,863)**	(50,227)	**(208,634)**	(235,913)
Total financial liabilities	**(152,337)**	(162,856)	**0**	**0**	**(26,434)**	(22,829)	**(29,863)**	(50,227)	**(208,634)**	(235,913)
Non-financial liabilities	**0**	0	**0**	0	**0**	0	**(7,325)**	184	**(7,325)**	184
Total	**(152,337)**	(162,856)	**0**	0	**(26,434)**	(22,829)	**(37,188)**	(50,044)	**(215,960)**	(235,729)

12.2 Material Soft Loan made by the Council

Loan to Kent County Cricket Club (KCCC)

Soft loans includes a loan to the KCCC (towards the implementation of its development plans) which is deemed to be material. A soft loan is one where the advance has been made at less than market rates. Within the balance of soft loans of £2.5m shown in the table at 12.1 above, is an amount of £2.3m in respect of the KCCC.

	2021/22	2022/23
	£'000	£'000
Balance at start of year:		
Opening balance	2,534	**2,436**
Loans repaid	(122)	**(127)**
Increase/(decrease) in discounted amount	24	**24**
Impairment losses	0	**0**
Closing balance at end of year	2,436	**2,333**

The interest rate at which the fair value of this soft loan has been made is arrived at by adding 1% to the actual cost of borrowing to reflect the credit risk.

12.3 Income, Expense, Gains and Losses

The income, expense, gains and losses recognised in the CIES (as part of Surplus/Deficit on the Provision of Services) in relation to financial instruments are made up as follows:

	2021/22	2022/23
	£'000	£'000
Net gains/losses on:		
Financial assets measured at fair value through profit and loss	(20)	(499)
Financial assets measured at amortised cost	24	22
Total net gains/losses	3	(477)
Interest revenue:		
Financial assets measured at amortised cost	(130)	(132)
Interest expense	4,870	4,806

12.4 Fair Values of Financial Assets and Liabilities

The Council's financial liabilities and financial assets 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 2023 were between 4.44% and 4.91% 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 2022 Carrying Amount £'000	31 March 2022 Fair Value £'000		31 March 2023 Carrying Amount £'000	31 March 2023 Fair Value £'000
		Long term borrowing		
162,854	169,928	Financial Liabilities PWLB loans	152,335	134,198
2	0	Financial Liabilities - Other bonds and mortgages	2	0
		Short term borrowing		
22,829	22,621	Financial Liabilities - temporary loans	26,434	23,375

The fair value is lower than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the rates available for similar loans at the balance sheet date including two loans totalling £105m with rates of 2.61% and 2.47% which account for a fair value of £14.1m lower than the carrying amount. Further, the commitment to pay interest below current market rates on the other loans decreases the amount that the Council would have to pay if the lender requested or agreed to early repayments of the loans.

31 March 2022 Carrying Amount £'000	31 March 2022 Fair Value £'000		31 March 2023 Carrying Amount £'000	31 March 2023 Fair Value £'000
		Investments		
0	0	Loans and receivables - banks and building societies	0	0
32,420	32,420	Fair value through profit and loss - money market funds	15,116	15,116
32,420	32,420		**15,116**	**15,116**

The value of money market funds are made at "mark to market" meaning that the value of the funds are constantly measured at their fair value. The Council's carrying amount in the accounts is kept up to date resulting in them being equal to the fair value.

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.

12.5 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 £2.5 million and £10 million. The strategy for 2022/23 was agreed by Council on 21 February 2022 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 investment sums owing to the Council (£15.1m) can be repaid on demand if required. 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 £64.3m 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 2022 £'000	Source of Loan	Range of interest rates payable %	31 March 2023 £'000
162,854	Public Works Loan Board	0.74 - 10.50	152,335
2	Other bonds and mortgages	2.00 - 5.625	2
162,856	Total Long term borrowing		**152,337**
	Analysis of loans by maturity is:		
10,518	Maturing in 1-2 years		10,749
32,963	Maturing in 2-5 years		34,061
50,633	Maturing in 5-10 years		43,182
68,742	Maturing in over 10 years		64,345
162,856	Total Long term borrowing		**152,337**

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 invests in money market funds which are subject to movements in interest rates. For a 1% increase in rates additional income of £135k would be generated from the funds. A 1% reduction would have the opposite effect.

General Fund Borrowing

The maturity analysis table on page 52 shows £64.3m Council borrowing in excess of 10 years, of this £62.3m relates to the General Fund and £2m relates to the HRA.

Financial Instruments Designated at Fair Value through Profit or Loss (FVPL)

The Council held £15.1m in money market funds at 31 March 2023 designated as FVPL. The risk to the value of the funds is managed as described above. Fair value hierarchy of Level 1 is applied, that is, the value is derived from quoted prices in active markets for identical assets. The impact of a 1% interest rate rise would lead to an estimated reduction in fair value of £16k.

13 Long term debtors

Balance at 31 March 2022 £'000	Category	Advances £'000	Repayments £'000	Write-Offs £'000	Balance at 31 March 2023 £'000
	Soft loans (Misc loans)				
2,828	Actual amount outstanding	0	(189)	0	2,639
(203)	Adjustments to fair value	0	30	0	(173)
2,625	**Soft loans - Fair value**	0	(159)	0	2,466
220	Canenco loan	0	0	0	220
133	Shared Service Reserves	0	(12)	0	121
2,979	**Total**	**0**	**(171)**	**0**	**2,808**

The balance for soft loans at 31 March 2023 of £2.639m has been reduced downwards by £173k (contra the Financial Instruments adjustment account) to a 'fair value' of £2.466m 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 2022 £'000	Category	31 March 2023 £'000
11,956	Other entities and individuals	9,136
1,636	Central government bodies	1,504
1,367	Other local authorities	971
8	Public corps and trading funds	36
14,967	**Total**	**11,647**
	Impairment of debt	
(1,333)	Local tax payers	(1,239)
(1,251)	Housing	(1,624)
(1,755)	Benefits	(1,690)
(687)	Penalty charges notices & other provisions	(282)
(5,025)	**Total**	**(4,835)**
9,942	**Total short term debtors**	**6,812**

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 2022 General £'000	31 March 2022 HRA £'000	31 March 2022 Total £'000	Age of Debt	31 March 2023 General £'000	31 March 2023 HRA £'000	31 March 2023 Total £'000
1,427	87	**1,514**	0 to 30 days	1,383	62	**1,445**
151	12	**163**	31 to 60 days	149	7	**156**
185	4	**189**	61 to 90 days	172	8	**180**
752	2	**754**	91 to 120 days	689	31	**720**
529	110	**639**	Over 120 days	583	26	**610**
3,045	**215**	**3,260**	**Total**	**2,976**	**134**	**3,110**

14.2 Collectability of debt

The Council does not generally allow credit for customers; however, it is prudent to establish an allowance 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.

14.3 Payments in Advance

31 March 2022 £'000		31 March 2023 £'000
1,285	Long Term Payments in Advance	1,187
307	Short Term Payments in Advance	387
1,592		**1,574**

15 Cash and cash equivalents

Cash is defined as cash in hand and deposits repayable on demand, less overdrafts. The balance of cash and cash equivalents is made up of the following elements:

31 March 2022 £'000		31 March 2023 £'000
35	Bank overnight deposits	196
762	Cash in hand	2,902
797		3,098
(817)	Payments in transit	(993)
(20)		**2,105**

16 Creditors

31 March 2022	Category	31 March 2023
£'000	**Sundry creditors**	**£'000**
(9,064)	Other entities and individuals	(5,874)
(38,598)	Central government bodies	(20,401)
(2,354)	Other local authorities	(10,849)
(28)	Public corps and trading funds	(64)
(50,044)	**Total**	**(37,188)**

16.1 Deposits and Receipts in Advance

The balance for deposits and receipts in advance of £10.185m is predominantly made up of various government grants. (In 2021/22 the total was £26.525m which was also predominantly made up of various government grants, most of which related to the pandemic).

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 2022 £'000	Net movement in year £'000	Balance 31 March 2023 £'000	Purpose of reserve
Revaluation Reserve	(244,684)	(47,755)	(292,439)	Store of gains on revaluation of fixed assets, not yet realised through sales see note 18.1 for details
Capital Adjustment Account	(160,720)	11,274	(149,446)	Store of capital resources set aside to meet past expenditure see note 18.2 for details
Financial Instrument Adjustment Account	480	(47)	432	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowing and investments.
Pensions Reserve	88,206	(77,862)	10,344	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet. See note 18.3 for details
Collection Fund Adjustment Account	4,017	(4,000)	17	Resources available to meet future precept payments re City Council share only
Short-term accumulating absences account	230	(40)	190	Represents accrual of holiday entitlement carried forward at year end
Total	**(312,472)**	**(118,430)**	**(430,902)**	

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 2022 £'000	Category	General Fund £'000	Housing £'000	31 March 2023 £'000
(257,930)	Balance at 1 April	(66,336)	(178,348)	(244,684)
(21,401)	Upward revaluation of assets	(25,281)	(15,973)	(41,254)
37,161	Downward revaluation of assets and impairment losses not charged to Surplus/Deficit on provision of services	1,035	2	1,037
15,760		(24,246)	(15,971)	(40,216)
(4,172)	Depreciation written out on revaluations of PPE	0	(4,008)	(4,008)
11,588	(Surplus)/deficit on revaluation of assets not posted to the surplus or deficit on the provision of services per CIES.	(24,246)	(19,979)	(44,224)
	Transfers to Capital Adjustment Account (note 18.2)			
1,246	Write-out the revaluation gains previously recognised for assets disposed of in current year.	2,122	0	2,122
12,834	**(Surplus)/deficit on revaluation of PPE**	(22,124)	(19,979)	(42,103)
412	Difference between fair value depreciation and historical cost depreciation following revaluations	973	2	975
13,246	Total movement in reserve in the year	(21,151)	(19,977)	(41,128)
(244,683)	**Balance at 31 March**	**(87,486)**	**(198,325)**	**(285,811)**

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 CIES (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.

2021/22 Total £'000	Capital Adjustment Account	General Fund £'000	Housing £'000	2022/23 Total £'000
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement			
	Charges for depreciation and impairment			
(157,512)	Balance at 1 April	(75,908)	(84,812)	(160,720)
9,885	Charges for depreciation and impairment of non-current assets	7,101	4,340	11,441
6,877	Revaluation of Property, Plant and Equipment	12,132	6,711	18,843
603	Revenue expenditure funded from capital under statute	2,254	0	2,254
3,069	Amounts of non-current assets written off on disposal/sale as part of gain/loss on disposal to CIES	4,323	2,056	6,379
20,435		25,810	13,107	38,917
(412)	Adjusting amounts written out to Revaluation Reserve	(973)	(2)	(976)
20,023	**Net written out amount of the cost of non-current assets consumed in the year.**	24,837	13,104	37,941
	Capital financing applied in the year			0
(4,393)	Use of the Capital Receipts Reserve to finance new capital expenditure	(6,331)	(2,226)	(8,557)
(4,176)	Use of the Major Repairs Reserve to finance new capital expenditure	0	(4,340)	(4,340)
(1,261)	Capital grants and contributions credited to the CIES that have been applied to capital financing	(900)	0	(900)
(7,188)	Statutory provision for the financing of capital charged to the General Fund and HRA balances	(8,527)	0	(8,527)
(555)	Capital expenditure charged against the General Fund and HRA balances	(182)	0	(182)
(17,573)		(15,940)	(6,566)	(22,506)
	Movement in the year			0
0	Movement in the market value of Investment Properties debited or credited to the Comp Income and Exp Stmt	2,005	0	2,005
(5,720)	HRA loan repayment	0	(5,850)	(5,850)
62	Repayments of soft loans and housing act advances	61	0	61
(160,720)	**Balance at 31 March**	**(64,945)**	**(84,124)**	**(149,069)**

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 CIES 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.

2021/22		2022/23
£'000		£'000
91,640	**Balance at 1 April**	88,206
(8,571)	Remeasurements of the net defined benefit liability	(81,684)
9,763	Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the Comprehensive I&E Statement	8,747
(4,626)	Employer's pension contributions	(4,925)
88,206	**Balance at 31 March**	**10,344**

19 Cash flow statement – operating activities and reconciliation of liabilities arising from financing

19.1 The cash flows for operating activities include the following items:

2021/22		2022/23
£'000		£'000
4,860	Interest paid	4,643
(150)	Investment income received	(571)
4,710	Total	**4,072**

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

19.2 Reconciliation of liabilities arising from financing activities

Balance at 1 April 2022 (re-stated)	Liability	Financing cash flows	Non cash changes Acquisition	Other non cash	Balance at 31 March 2023
£'000		£'000	£'000	£'000	£'000
(162,856)	Long term borrowings	10,294	0	225	(152,337)
(22,829)	Short term borrowings	(2,000)	0	(1,605)	(26,435)
0	Lease liabilities	0	0	0	0
(185,685)	**Total liabilities from financing activities**	**8,294**	**0**	**(1,380)**	**(178,772)**

Long term and short term borrowings at 1 April 2022 have been restated due to misclassification in the prior year. The lease liability at 1 April 2022 has been re-stated from £(424)k to nil as the embedded lease write down had occurred in 2020/21.

20 Grant Income

The Council credited the following grants and contributions to the CIES within taxation and non-specific grant income section.

2021/22	Taxation and non-specific grant Income	2022/23
£'000	**a) General government grants**	**£'000**
(10,117)	Non-domestic rates income and expenditure	(4,985)
(1,478)	New homes bonus	(1,604)
(665)	Other central government grants	(1,747)
(12,259)	**Total of general government grants**	**(8,336)**
	b) Recognised capital grants and contributions	
(1,621)	Grants and contributions	(3,495)
(1,621)	**Total of recognised capital grants and contributions**	**(3,495)**

The Council credited the following grants and contributions to cost of services within the CIES.

2021/22		2022/23
£'000	**Credited to Services**	**£'000**
(18,757)	Rent allowances	(17,257)
(11,790)	Rent rebates	(11,266)
(611)	Benefits administration	(538)
(233)	NDR administration	(237)
(3,306)	Covid 19 grants	(6,674)
0	Energy Rebate Grants	708
(4,052)	Other revenue grants	(5,227)
(1,191)	Disabled facilities grants	(1,167)
(39,941)		**(41,658)**

Covid 19 grants consist of several different grants, as shown below.

2021/22		2022/23
£'000		**£'000**
(1,281)	Additional restrictrictions grant	(72)
(26)	Local authority discretionary grant fund	(6,683)
(961)	Sales, fees and charges grant	0
(248)	Government support grants	0
(789)	Miscellaneous grants	81
(3,306)		**(6,674)**

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 capital grants receipts in advance 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.

2021/22		2022/23
£'000		**£'000**
80	External audit services carried out by the appointed auditor	64
(8)	Rebate from PSAA	0
50	Certification of grant claims and returns	43
122	**Total**	**107**

The final agreed fee for external audit services for 21/22 is £105k and the provisional agreed fee for 22/23 is £73k. These costs are exclusive of VAT.

22 Councillors' Allowances

The total of councillors' allowances paid in the year was £331,293 (2021/22 - £316,865)

Details can be found on our website:
https://www.canterbury.gov.uk/budgets-and-transparency/members-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 2021/22	Renumeration band	Number of Employees 2022/23
10	£50,000 - £54,999	12
15	£55,000 - £59,999	10
4	£60,000 - £64,999	4
7	£65,000 - £69,999	6
3	£70,000 - £74,999	6
2	£75,000 - £79,999	4
1	£80,000 - £84,999	0
1	£85,000 - £89,999	1
0	£90,000 - £94,999	2
1	£95,000 - £99,999	1
0	£100,000 - £104,999	0
1	£105,000 - £109,999	0
1	£110,000 - £114,999	1
0	£115,000 - £119,999	1
0	£120,000 - £124,999	1
1	£150,000 - £154,999	0
47	**Total**	**49**

23.1 Senior Officers' Emoluments

This note reports the details of officers with statutory responsibilities and those reporting direct to the Head of Paid Service or part of Senior Management Team. The lowest full-time pay rate on the Council's salary scale is £20,253, therefore the test of the most senior salary not exceeding 20 times this rate is comfortably met.

2021/22				2022/23		
Salaries fees & allowances	**Pension Contribution**	**Total**	**Statutory Officers**	**Salaries fees & allowances**	**Pension Contribution**	**Total**
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
151	23	174	Head of Paid Service Chief - Executive	0	0	0
0	0	0	Head of Paid Service	120	20	140
112	19	131	Chief Financial Officer - Director Corporate Services	0	0	0
0	0	0	Chief Financial Officer - Deputy Director Finance & Procurement	86	14	100
35	5	40	Head of Legal Services	76	7	83
79	0	79	Interim Head of Legal Services	0	0	0
			Non Statutory Directors			
96	16	112	Director - Strategy and Improvement	110	18	128
107	18	125	Director - People and Places	119	20	139
50	7	57	Director - Finance & Procurement	0	0	0
630	**88**	**718**	**Total**	**511**	**79**	**590**

A permanent Head of Legal Services was appointed from October 2021, replacing the Interim Head of Legal Services. The Director - Finance & Procurement post was vacant from 1 October 2021, and was removed from the senior management structure.

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 2022/23, incurring liabilities of £89,000 (£307,000 in 2021/22). The total in 2022/23 is in respect of 7 officers from various divisions within the Council who were made redundant 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:

2021/22				2022/23		
Number of Packages	Type of exit package	Total cost £'000	Band	Number of Packages	Type of exit package	Total cost £'000
4	Compulsory Redundancy	33	£0 -	0	Compulsory Redundancy	0
4	Other	40	£19,999	5	Other	4
2	Compulsory Redundancy	62	£20,000 -	0	Compulsory Redundancy	0
1	Other	26	£39,999	0	Other	0
0	Compulsory Redundancy	0	£40,000 -	2	Compulsory Redundancy	85
1	Other	53	£59.999	0	Other	0
0	Compulsory Redundancy	0	£60,000 -	0	Compulsory Redundancy	0
0	Other	0	£79,999	0	Other	0
1	Compulsory Redundancy	93	£80,000 -	0	Compulsory Redundancy	0
0	Other	0	£99,999	0	Other	0
0	Compulsory Redundancy	0	£100,000 -	0	Compulsory Redundancy	0
0	Other	0	£119,999	0	Other	0
0	Compulsory Redundancy	0	£120,000 -	0	Compulsory Redundancy	0
0	Other	0	£139,999	0	Other	0
0	Compulsory Redundancy	0	£140,000 -	0	Compulsory Redundancy	0
0	Other	0	£159,999	0	Other	0
13		307		7		89

Accounting regulations require the council to include a provision in the accounts for redundancy costs that the council know they will incur in 2023/24. The amounts payable to officers after 31 March 2023 are excluded from the table above as it will be disclosed in 2023/24.

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. Several councillors are trustees of groups that have received small amounts of grant funding during the year.

Canterbury Environment Company (CanenCo)

On 1 February 2021 the Council’s waste and street cleansing service became the responsibility of Canterbury Environment Company which is a company wholly owned by the Council. Canterbury Environment Company also took on the grounds maintenance and associated works contract from 1 December 2021. During 2022/23, the Council’s Director of People and Place and Deputy Director of Place served as company directors.In addition, the Strategic Finance Manager was a director until November 2022 and, on her departure, was replaced by the Interim Accountant for the remainder of the financial year.

Payment of £10.6m was made in 22/23 to CanenCo in relation to waste services and the Council received £298k from CanenCo in relation to support service charges. Balances due to/from CanenCo at 31st March 2023 are £207k and £384k respectively.

Precepting authorities

The Council collects council tax on behalf of its three major precepting authorities who in turn precept the Council. In addition, Kent County Council and Kent Fire and Rescue receive its share of business rates collected by the Council. Details are set out in the Collection Fund on pages 76-79. Kent County Council also administers the Kent Pension Fund on behalf of Kent districts (see pages 62-67).

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 CIES.

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 LLP.

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 CIES and the General Fund balance during the year:

2021/22 £'000	Transactions in the Comprehensive Income and Expenditure Statement	2022/23 £'000
	Cost of Services	
7,570	Current Service cost	6,442
0	Past Service costs/(gains)	(23)
296	Settlements and Curtailments	0
98	Administrative expense	102
	Financing and Investment income and expenditure	
1,799	Net interest expense	2,226
9,763	**Total retirement benefit charged to the Surplus or Deficit on the provision of services**	**8,747**
	Other retirement benefit charged to the Comprehensive Income and Expenditure statement	
	Remeasurement of the net defined benefit liability comprising:	
(325)	Return on plan assets (exc net interest expense amount)	2,166
0	Actuarial changes in demographic assumptions	(7,026)
(8,796)	Actuarial changes in financial assumptions	(97,368)
0	Other actuarial (gains)/losses on assets	(1,156)
550	Experience (gain)/loss on defined benefit obligation	21,700
(8,571)	**Total retirement benefit charged to the other Comprehensive Income and Expenditure Statement**	**(81,684)**
1,192	**Total charged to the Comprehensive Income and Expenditure Statement**	**(72,937)**
	Movements in Reserves Statement	
(9,763)	Reversal of net charges for retirement benefits in accordance with the code to the Surplus or Deficit for the provision of services	(8,747)
	Actual amount charged against the General Fund Balance for pensions in the year	
4,369	Employer contributions payable to the scheme	4,667
257	Unfunded benefits paid	258

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:

2021/22 £'000	Net Pension Liability as at 31 March in Balance Sheet	2022/23 £'000
253,066	Present value of the defined benefit obligation	176,901
167,592	Less fair value of plan assets	168,969
85,474	Sub-total	7,932
2,732	Other movements in the liability	2,412
88,206	**Net liability arising from the defined benefit obligation**	**10,344**

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

2021/22 £'000	Movement in Fair Value of scheme assets	2022/23 £'000
165,709	**Opening fair value of scheme assets at 1 April**	**167,592**
3,136	Interest income	4,334
	Remeasurement gain/(loss):	
325	Return on plan assets (exc amount in net interest expense)	(2,166)
0	Other actuarial gains/(losses)	1,156
25	Settlement prices received/(paid)	0
(98)	Administrative expenses	(102)
4,626	Employer Contribution	4,925
1,260	Employee Contribution	1,312
(7,391)	Estimated Benefits paid	(8,082)
167,592	**Closing fair value of scheme assets at 31 March**	**168,969**

28.4 Reconciliation of Present Value of the Scheme Liabilities

2021/22 £'000	Movement in Defined Benefit Obligation ('Scheme Liabilities')	2022/23 £'000
(257,349)	**Opening balance at 1 April**	**(255,798)**
(7,570)	Current service cost	(6,442)
(4,935)	Interest cost of pension scheme liabilities	(6,560)
(1,260)	Employee Contributions	(1,312)
	Remeasurement gains and losses:	
0	Actuarial gains/(losses) from demographic assumption changes	7,026
8,796	Actuarial gains/(losses) from financial assumption changes	97,368
(550)	Experience gain/(loss) on defined benefit obligation	(21,700)
(257)	Past service cost/gain including curtailments	23
257	Unfunded pension payments	258
7,134	Estimated benefits paid	7,824
(64)	Liabilities extinguished on settlements	0
(255,798)	**Closing balance at 31 March**	**(179,313)**

28.5 Local Government Pension Scheme Assets Comprised:

2021/22 £'000	Pension Scheme Assets	2022/23 £'000
3,463	**Cash**	3,031
107,883	**Equity instruments**	107,822
	Bonds	
1,023	- Gilts	926
23,139	- Other	22,192
19,685	**Property**	16,865
12,399	**Target Return Portfolio**	12,377
0	**Infrastructure**	5,756

*For 2021/22, infrastructure was included within the equities asset class.

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).

	2022/23	
	% Quoted	**% Unquoted**
Fixed Interest Government Securities		
UK	-	-
Overseas	1%	-
Corporate Bonds		
UK	4%	-
Overseas	10%	-
Equities		
UK	16%	-
Overseas	44%	-
Property		
All	-	10%
Others		
Absolute return portfolio	7%	-
Private Equity	-	4%
Infrastructure	-	3%
Derivatives	-	0%
Cash/Temporary Investments	-	2%
Total	**81%**	**19%**

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 LLP, an independent firm of actuaries, estimates for the Fund being based on the latest triennial full valuation of the scheme as at 31 March 2022.

Valuation techniques are used to determine the fair values of directly held property and pooled property funds that form part of the pension fund assets. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property.

The significant assumptions used by the actuary have been:

2021/22		2022/23
	Mortality assumptions:	
	Longevity at 65 for current pensioners	
21.6	- Men	21.1
23.7	- Women	23.5
	Longevity at 65 for future pensioners	
23.0	- Men	22.3
25.1	- Women	25.0
3.30%	*Rate of inflation (CPI)*	2.95%
4.30%	*Rate of increased salaries*	3.95%
3.30%	*Rate of increase in pensions*	2.95%
2.60%	*Rate for discounting scheme liabilities*	4.80%

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**	**£'000**	**£'000**
Adjustment to discount rate	+0.5%	+1.%	0.0%	-1.%	-0.5%
Present Value Total Obligation	167,034	156,135	179,313	209,018	193,211
Projected Service Cost	1,946	1,607	2,347	3,394	2,824
Adjustment to long term salary increase	+0.5%	+1.%	0.0%	-1.%	-0.5%
Present Value Total Obligation	180,163	181,048	179,313	177,715	178,498
Projected Service Cost	2,355	2,363	2,347	2,331	2,339
Adjustment to pension increases & deferred revaluation	+0.5%	+1.%	0.0%	-1.%	-0.5%
Present Value Total Obligation	192,555	207,559	179,313	157,159	167,585
Projected Service Cost	2,821	3,404	2,347	1,598	1,949
Adjustment to life expectancy assumptions		+1 year	none	-1 year	
Present Value Total Obligation		186,829	179,313	172,130	
Projected Service Cost		2,434	2,347	2,263	

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 an appropriate time period. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2025.

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 paying £3.938m employer contributions to the scheme in 2023/24.

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 £98k in 2022/23 (£98k for 2021/22).

The future lease payments due under this lease in future years are:

As at 31 March 2022 £'000	Details of period	As at 31 March 2023 £'000
98	Not later than one year	98
390	Later than one year and not later than five years	390
936	Later than five years	839
1,424	**Total**	**1,327**

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 £1,021k for 2022/23 (£1,097k in 2021/22).

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 table below shows the amount of annual lease payments receivable based on the date of lease expiry:

As at 31 March 2022 £'000	Details of period	As at 31 March 2023 £'000
765	Not later than one year	978
373	Later than one year and not later than five years	192
4,748	Later than five years	4,715
5,886	**Total**	**5,885**

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

Details of period	2023 £,000
Within one year	5,770
Later than one year and not later than five years	19,235
Later than five years	429,122
Total	**454,127**

30 Contingent Liability

The Council is aware of building defects identified at the Marlowe Theatre related to the original construction. The theatre was built in 2012 and then transferred to a Trust in 2018. To rectify the defects is an estimated additional £2.6m. There is ongoing litigation with the contractor to recover the costs.

31 Interest in joint arrangements and companies

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 councils 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.

During 2021/22 HR services were removed from the joint service arrangement, although Payroll services remain within the shared service.

The 2022/23 financial statements contain a long term debtor of £121k which represents the Canterbury City Council element of the EK Services reserve.

In October 2022 Cabinet agreed to disband East Kent ICT and the ICT service is being brought back in-house in a phased approach which started in October 2022 and will run through to April 2024.

Canterbury Environment Company Ltd

The Council is sole owner of the company. Group financial statements for the Council and the company are set out on pages 80 to 86 below.

Key results for the company in 2022/23 are as follows:

2021/22 £'000	Canterbury Environment Company	2022/23 £'000
7,627	Turnover	**10,587**
2,230	Gross profit	**2,984**
5	Net profit after administration, interest and tax	**18**
25	Net assets	**43**

32 Provisions

	NNDR Appeals £'000	Other £'000	Total £'000
Balance at 1 April 2022	(4,741)	(1,125)	(5,866)
Additional provisions made	(921)	0	(921)
Amounts used	620	54	674
Reversal of unused amounts	0	24	24
Balance at 31 March 2023	**(5,042)**	**(1,047)**	**(6,089)**

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.

2021/22 £'000	Income	2022/23 £'000
(23,562)	Dwelling rents (gross) note 8	(24,460)
(529)	Non-dwelling rents (gross)	(571)
(302)	Leaseholders charges for service and facilities	(336)
(1,442)	Other charges for services and facilities	(1,449)
(1)	Revaluation of plant, property & equipment note 7	(34)
(25,835)	**Total Income**	**(26,850)**
	Expenditure	
7,658	Repairs and Maintenance	7,429
	Supervision and management	
6,024	General Management	5,070
2,115	Special Services	2,409
371	Rents, rates, council tax and insurance	593
4,176	Depreciation charges note 6	4,340
4,780	Revaluation of plant, property & equipment note 7	6,745
22	Debt management costs	21
97	Increase/(decrease) in provision for bad debts	382
25,244	**Total Expenditure**	**26,989**
(591)	Net cost of HRA Services as included in the Comprehensive Income and Expenditure Statement	139
121	HRA services share of Corporate and Democratic Core	121
(470)	**Net cost of HRA Services**	**260**
	HRA share of the operating income and expenditure included in the comprehensive income and expenditure statement	
(1,281)	Gain on sale of HRA fixed assets	(1,845)
1,841	Interest payable and similar charges	1,991
	Interest and investment income	
(1)	Notional cash balances	(10)
295	Pensions interest cost and expected return on pension assets Note 10	369
(409)	Capital grants and contributions receivable	0
(24)	**(Surplus)/Deficit for the year on HRA services**	**765**

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 £6.7m 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.

2021/22 Net expenditure £'000		**2022/23 Net expenditure £'000**
(24)	(Surplus)/Deficit for the year on the HRA Income and Expenditure Statement	765
1,747	Adjustments between accounting basis and funding basis by statute	228
1,723	Net (increase)/decrease before transfers to or from reserves	993
(64)	Transfers to/(from) reserves (see table below)	(686)
1,659	**(Increase)/Decrease in HRA Balance for the year**	**307**
(2,552)	**Housing Revenue Account balance b/f at 1 April**	**(893)**
(893)	**Housing Revenue Account balance c/f at 31 March**	**(586)**

Movement on HRA Balance

2021/22 Net Expenditure £'000		2022/23 Net Expenditure £'000
	Items included in the HRA Income & Expenditure Account, but excluded from the movement on the HRA Balance for the year	
(4,779)	Reversal of revaluation adjustments - Note 7	(6,711)
5,720	Reversal: HRA loan repayment	5,850
409	Capital grants and contributions applied	0
0	Revenue expenditure funded from capital under statute	0
1,281	Net gain on sale of HRA fixed assets	1,845
28	Accrual for annual leave	7
(1,546)	Net charges made for retirement benefits in accordance with IAS 19 - Note 10	(1,422)
1,113		**(430)**
	Items not included in the HRA Income & Expenditure Account, but included in the movement on the HRA Balance for the year	
0	Transfers to/(from) major repairs reserve - Note 3	0
634	Employer's contributions payable to Kent Pension Fund and retirement benefits payable direct to pensioners	658
0	Capital expenditure funded by the HRA - Note 4	0
634		**658**
1,747	**Net adjustments between accounting basis and funding basis under statute**	**228**
	Transfers to/from reserves	
(64)	Contribution to/(from) HRA subsidence and other reserves	(686)
(64)	**Transfers to/from reserves**	**(686)**

Notes to the Housing Revenue Account

1 Housing Stock

At 31 March 2023, the Council was responsible for managing 5,065 units of accommodation:

Type of Property	Number of bedrooms				Total
	One	Two	Three	Four+	
Flats- low rise	1,095	329	9	0	**1,433**
Flats- medium rise	310	348	64	2	**724**
Flats- high rise	63	68	0	0	**131**
Houses and bungalows	362	905	1,379	109	**2,755**
Hostel places	20	2	0	0	**22**
Totals	1,850	1,652	1,452	111	**5,065**

Plus 11 basic homes (shared ownership dwellings).

The movement in housing stock can be summarised as follows:

	Stock at 1 April 2022	Right to buy sales	Additions	Redesignation	Stock at 31 March 2023
Flats	2,296	(7)	0	(1)	**2,288**
Houses and bungalows	2,770	(20)	5	0	**2,755**
Hostels	22	0	0	0	**22**
Totals	**5,088**	**(27)**	**5**	**(1)**	**5,065**

Following recent stock reviews it was identified that a one bedroom bungalow that was attached to a block of flats was recorded as a one bedroom flat on the housing system. This has now been rectified and restated above, the change to the overall stock valuation was not material.

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

2021/22 £'000	Operational assets	2022/23 £'000
327,272	Dwellings	340,508
2,716	Garages & parking area	3,420
727	Community centres & communal open space	721
395	Land	852
1,426	Shops	1,397
74	Plant, vehicles and equipment	59
384	Intangibles	317
332,993	**Total**	**347,274**

2 Vacant possession value

The vacant possession value of dwellings within the HRA as at 31 March 2023 was £1,032m. For the balance sheet, the figure has been reduced to 33% i.e. £341m 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.

2021/22 £'000	Major Repairs Reserve	2022/23 £'000
0	Balance at 1 April	0
(4,176)	Transfer from capital adjustment account (HRA depreciation)	(4,340)
	Transfer to (-)/from HRA	
0	Voluntary transfer to/from MRR	0
4,176	Less: expenditure on dwellings financed from this reserve	4,340
0	**Balance at 31 March**	**0**

4 Summary of Capital Financing

Capital expenditure of £7.43m was spent on housing assets within the HRA during the year. This was financed as follows:

2021/22 £'000	Capital financing of HRA expenditure	2022/23 £'000
4,176	Major repairs reserve	4,340
1,526	Capital receipts	2,226
409	Capital grant & contributions	0
168	Borrowing	843
6,278	**Total**	**7,409**

5 Summary of Capital Receipts

Housing capital receipts during 2022/23 were as follows:

2021/22 £'000	Housing capital receipts	2022/23 £'000
(3,291)	Dwelling sales (net of administration deduction)	(3,858)
(16)	Other sales	(44)
(3,307)	**Total**	**(3,901)**

6 Depreciation of property, plant and equipment

Depreciation of £4.34m was charged to the HRA. This comprises of £4.14m for dwellings and £203k for non-dwelling housing assets.

7 Revaluation of property, plant and equipment

2021/22 £'000		2022/23 £'000
6,278	Capital expenditure	7,409
(1,909)	Less assessed net increase in effective value	(2,067)
4,369	Decrease in effective value	5,342
0	Impairment of non-dwelling assets	1,240
411	Social value reduction	164
4,780	Total reduction in valuation	**6,745**
(1)	Valuation increase applied to CIES	(34)
4,779	Net revaluation total	**6,711**

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 £97.91 per payment week in 2022/23 (£94.21 in 2021/22).

9 Rent Arrears

The rent arrears figures are as follows:

2021/22 £'000		2022/23 £'000
1,575	Gross rent arrears at 31 March	1,991
(662)	Repayments of rent	(680)
913	Net rent arrears at 31 March	1,311
1,251	Provision for bad debts at 31 March	1,624
%		%
6.7	Gross rent arrears as a proportion of gross dwelling rent income	8.1

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:

2021/22 £'000		2022/23 £'000
858	HRA share of current service cost less employer contributions	643
(241)	HRA share of past service cost less employer contributions	(249)
617	Adjustment to 'General Management' line of HRA statement	394
295	HRA share of pensions interest cost and expected return on	370
912	Pensions assets	764
(1,546)	Net charges made for retirement benefits in accordance with IAS 19	(1,422)
634	Employer's contributions payable to the Kent Pension Fund and retirement benefits payable direct to pensioners	658
(912)	HRA share of contributions to/from Pensions Reserve	(764)
0	**Net effect on HRA balance**	**0**

Collection Fund

2021/22 CTAX	2021/22 NNDR	Income & Expenditure Account Income	Note	2022/23 CTAX	2022/23 NNDR
£'000	£'000			£'000	£'000
(100,461)		Income from council tax payers		(105,842)	
(1,048)		Transfer from General Fund s13 A1C discounts		0	
	(41,331)	Income from business ratepayers			(44,824)
(101,509)	**(41,331)**	**Total Income**		**(105,842)**	**(44,824)**
		Expenditure			
		Precepts and demands			
	6,335	Central Government			16,874
70,167	1,140	Kent County Council		74,442	3,037
10,790	0	Police & Crime Commissioner for Kent		11,626	0
3,997	127	Kent & Medway Fire & Rescue Authority		4,194	337
11,787	5,068	Canterbury City Council		12,383	13,500
96,741	**12,670**	**Total payments to preceptors**		**102,645**	**33,748**
		Business rates			
	233	Costs of collection			237
	286	Renewable Energy Schemes			293
	963	Transitional protection			339
		Impairment of debts and appeals			
139	0	Write offs of uncollectable amounts		227	520
644	475	Increase/(decrease) in allowance for impairment		546	(369)
	2,062	Increase/(decrease) in allowance for appeals			753
97,524	**16,689**	**Total Expenditure**		**103,418**	**35,521**
(3,985)	(24,642)	Net (surplus)/deficit		(2,424)	(9,303)
2,228	35,197	Collection Fund balance at 1 April		(1,757)	10,555
(1,757)	10,555	Collection Fund balance at 31 March		(4,181)	1,252

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. Precepts and Demands

Council Tax

The payments to the major preceptors are made up as follows:

2021/22 £'000			2022/23 £'000
70,405	Kent County Council	-Precept	74,902
(238)		-Share of Collection Fund deficit	(460)
70,167			74,442
10,826	Kent Police & Crime Commissioner	-Precept	11,694
(36)		-Share of Collection Fund deficit	(68)
10,790			11,626
4,011	Kent Fire & Rescue	-Precept	4,221
(14)		-Share of Collection Fund deficit	(27)
3,997			4,194
11,820	Canterbury City Council	-Demand on Collection Fund	12,455
(33)		-Share of Collection Fund deficit	(72)
11,787			12,383
96,741	**Total**		**102,645**

NNDR (Business Rates)

The payments to Central Government and the major preceptors (excludes Kent Police and Crime Commissioner) are as follows:

2021/22 £'000			2022/23 £'000
23,847	Central Government	-Share of retained business rates	21,514
(17,512)		-Share of Collection Fund balance	(4,640)
6,335			16,874
4,292	Kent County Council	-Share of retained business rates	3,872
(3,152)		-Share of Collection Fund balance	(835)
1,140			3,037
477	Kent Fire & Rescue	-Share of retained business rates	430
(350)		-Share of Collection Fund balance	(93)
127			337
19,077	Canterbury City Council	-Share of retained business rates	17,212
(14,009)		-Share of Collection Fund balance	(3,712)
5,068			13,500
12,670	**Total**		**33,748**

For NNDR, the Collection Fund balance is shared as a contribution towards the deficit in 2022/23.

In 2022/23, Canterbury continue too chose to be not part of the Kent NNDR Pool (was within the Pool in 2020/21) owing to concerns that a potential reduction in its business rates income could negatively impact on the overall Pool position.

Canterbury City Council is subject to a tariff on its share of the retained business rates, the net amount retained by the council is as follows:

2021/22		2022/23
£'000		£'000
14,925	Canterbury City Council - share of retained business rates	17,221
(16,554)	Tariff	(16,554)
(1,629)	Adjusted share of retained business rates	**667**

3. Council Tax Base

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 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:

2021/22 Band D equivalent dwellings	Band	Estimated Number of Taxable Properties after effect of discounts	Ratio (ninths)	2022/23 Band D equivalent dwellings
2,431	A	3,776	6/9	2,517
7,267	B	9,451	7/9	7,351
14,028	C	16,071	8/9	14,286
11,191	D	11,425	9/9	11,425
8,055	E	6,773	11/9	8,278
5,293	F	3,724	13/9	5,379
3,456	G	2,099	15/9	3,498
136	H	70	18/9	140
51,856		53,388		52,873
96.5%		Collection Rate		97.8%
49,624		Council Tax Base		51,260

4. Income from Business Rates

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area which are based on local rateable values multiplied by a uniform rate in the pound. The total amount, less certain reliefs and other deductions, are allocated between Canterbury, central government and major preceptors. There was a general revaluation of all properties effective from 1 April 2022.

2021/22		2022/23
£'000		£'000
148,659	Non domestic rateable value	148,487
0.499	small business non domestic rating multiplier	0.499
74,181	NNDR levied	74,095
(36,869)	Less: allowances and other adjustments	(31,043)
37,312	Net contribution due	43,052
233	Cost of collection	237
37,545	Income from business rate payers	43,289

Non domestic rateable value is at end March as provided by the Valuation Office.

The allowances and other adjustments is different between years owing to the additional NNDR reliefs granted during the second year of the pandemic.

Group Statement of Accounts for the Year Ended 31 March 2023

(subject to audit)

Group Comprehensive Income and Expenditure Statement for the year ended 31 March 2023

This statement shows the accounting cost of providing services in the year ended 31 March 2023, in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The taxation position is shown in the Group Movement in Reserves Statement.

2021/22 Re-stated					2022/23		
Gross Exp	**Income**	**Net Exp**		**Note**	**Gross Exp**	**Income**	**Net Exp**
£'000	**£'000**	**£'000**			**£'000**	**£'000**	**£'000**
6,265	(7,057)	(792)	Corporate Management		11,924	(12,391)	(467)
38,859	(34,490)	4,369	Corporate Services		36,807	(31,496)	5,311
5,527	(916)	4,611	Strategy & Improvement		4,663	(236)	4,427
24,619	(29,630)	(5,011)	Place Services		35,193	(29,166)	6,027
22,361	(12,036)	10,325	People Services		24,344	(10,124)	14,220
716	(178)	538	Case Services (People & Place)		794	(162)	632
25,192	(25,784)	(592)	Housing Revenue Account		27,028	(26,889)	139
123,539	**(110,092)**	**13,447**	**Cost of Services**		**140,753**	**(110,464)**	**30,289**
			Other Operating Expenditure				
0	(2,838)	(2,838)	Loss/(Gain) on Sales of Assets		0	(3,974)	(3,974)
979	0	979	Parish Council Precepts & Drainage Board Levy		1,010	0	1,010
539	0	539	Housing Capital Receipts Cont to Govt Pool		0	0	0
			Financing & Investment Income & Expenditure				
4,869	0	4,869	Interest Payable on Debt		4,806	0	4,806
1,799	0	1,799	Net interest on the net defined benefit liability		2,226	0	2,226
3	(195)	(192)	Investment interest and other income		95	(688)	(593)
0	(250)	(250)	Investment properties income and expenditure		0	(250)	(250)
0	0	0	Change in Fair Value of Investment Properties		2,005	0	2,005
141	(97)	44	(Surplus)/deficit from Trading Operations		113	(68)	45
90	(259)	(169)	Impairment adjustments		373	(473)	(100)
			Taxation & Non-Specific Grant Income & Expenditure				
351	(1,972)	(1,621)	Recognised Capital Grants & Contributions		356	(3,851)	(3,495)
0	(8,093)	(8,093)	Collection Fund (Income) & Expenditure		0	(12,671)	(12,671)
35	(12,294)	(12,259)	Non ring-fenced Government Grants		794	(9,130)	(8,336)
132,345	**(136,090)**	**(3,745)**	**(Surplus)/deficit on provision of services**		**152,531**	**(141,569)**	**10,962**
		10	Tax expenses of subsidiaries				**(15)**
		(3,735)	**Group (surplus)/deficit**				**10,947**
		12,834	(Surplus)/deficit on revaluation of non current assets				(42,103)
		(8,571)	Remeasurement of the net defined benefit liability				(81,684)
		528	**Total Comprehensive (Income) & Expenditure**				**(112,840)**

The 2021/22 Group Statements have been re-stated to reflect adjustments to Canterbury Environment Company Ltd's accounts following its audit. Note 4 below sets out further details.

Group Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Group, 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 Group's services, more details of which are shown in the CIES. 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 Group.

Movement in Reserves 2022/23	**General Fund Balance**	**Earmarked Reserves**	**General Fund Total**	**Housing Revenue Account**	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Total Usable Reserves**	**Unusable Reserves**	**Total Council Reserves**	**Subsidiary**	**Total for Group**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 31 March 2022 carried forward	(2,239)	(34,685)	**(36,924)**	(893)	(2,291)	(5,456)	**(45,564)**	**(312,472)**	**(358,036)**	(25)	**(358,061)**
Movement in reserves during 2022/23											
(Surplus) or deficit on provision of services	10,322	0	**10,322**	644	0	0	**10,966**	**0**	**10,966**	(18)	**10,948**
Other comprehensive income and expenditure	(121)	0	**(121)**	121	0	0	**0**	**(123,787)**	**(123,787)**	0	**(123,787)**
Total comprehensive Income and Expenditure	10,201	0	**10,201**	765	0	0	**10,966**	**(123,787)**	**(112,821)**	(18)	**(112,839)**
Adjustments between accounting basis and funding basis under regulations	(8,137)	0	**(8,137)**	228	(1,857)	(2,596)	**(12,362)**	**12,362**	**0**	0	**0**
Net (increase)/decrease before transfers to Earmarked Reserves	2,064	0	**2,064**	993	(1,857)	(2,596)	**(1,396)**	**(111,425)**	**(112,821)**	(18)	**(112,839)**
Transfers to/(from) Earmarked Reserves	(1,877)	2,563	**686**	(686)	0	0	**0**	**0**	**0**	0	**0**
(Increase)/Decrease in year	187	2,563	**2,750**	307	(1,857)	(2,596)	**(1,396)**	**(111,425)**	**(112,821)**	(18)	**(112,839)**
Balance at 31 March 2023 carried forward	(2,052)	(32,122)	**(34,174)**	(586)	(4,148)	(8,052)	**(46,960)**	**(423,897)**	**(470,857)**	(43)	**(470,900)**

Movement in Reserves 2021/22 (re-stated)	General Fund Balance	Earmarked Reserves	General Fund Total	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves	Subsidiary	Total for Group
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2021 carried forward	(2,000)	(39,100)	**(41,100)**	(2,553)	(1,254)	(5,097)	**(50,003)**	**(308,566)**	**(358,569)**	(20)	**(358,589)**
Movement in reserves during 2021/22											
(Surplus) or deficit on provision of services	(3,584)	0	**(3,584)**	(146)	0	0	**(3,729)**	**0**	**(3,729)**	(5)	**(3,734)**
Other comprehensive income and expenditure	(121)	0	**(121)**	121	0	0	**0**	**4,263**	**4,263**	0	**4,263**
Total comprehensive Income and Expenditure	(3,705)	0	**(3,705)**	(25)	0	0	**(3,729)**	**4,263**	**533**	(5)	**528**
Adjustments between accounting basis and funding basis under regulations	7,817	0	**7,817**	1,747	(1,037)	(360)	**8,168**	**(8,168)**	**0**	0	**0**
Net (increase)/decrease before transfers to Earmarked	4,112	0	**4,112**	1,723	(1,037)	(360)	**4,438**	**(3,906)**	**533**	(5)	**528**
Transfers to/(from) Earmarked Reserves	(4,351)	4,415	**65**	(64)	0	0	**0**	**0**	**0**	0	**0**
(Increase)/Decrease in year	(239)	4,415	**4,176**	1,659	(1,037)	(360)	**4,438**	**(3,906)**	**533**	(5)	**528**
Balance at 31 March 2022 carried forward	(2,239)	(34,685)	**(36,924)**	(893)	(2,291)	(5,456)	**(45,564)**	**(312,472)**	**(358,036)**	(25)	**(358,061)**

Group Balance Sheet as at 31 March

2122 Re-stated			Notes	2223	
£'000	£'000			£'000	£'000
		Property, Plant and Equipment			
327,272		Council dwellings		340,508	
257,762		Other land and buildings		260,866	
19,332		Infrastructure assets		18,708	
10,373		Vehicles, plant and equipment		9,178	
1,702		Community assets		2,005	
27,872		Assets under construction		26,259	
	644,313				657,524
	12,327	Heritage Assets			14,064
	4,348	Investment Property			2,343
	1,246	Intangible Assets			1,382
	662,234				675,313
	1,285	Payments in Advance			1,188
	2,759	Long-term debtors			2,588
	666,278	**Total Long-term Assets**			**679,089**
		Current Assets			
32,420		Short-term investments		15,116	
249		Inventories		245	
9,866		Short-term debtors		6,618	
589		Payments in advance		736	
5,589		Assets held for sale		10,026	
324		Cash and cash equivalents		2,430	
	49,037				35,171
	715,315	**Total Assets**			**714,260**
		Current Liabilities			
(50,710)		Creditors		(37,787)	
(26,519)		Deposits and receipts in advance		(10,184)	
(22,829)		Short term borrowing		(26,434)	
(5,866)		Provisions		(6,089)	
	(105,924)				(80,494)
	609,391	**Total Assets less Current Liabilities**			**633,766**
		Long Term liabilities			
(211)		Other long-term liabilities		(127)	
(162,856)		Long-term borrowing		(152,337)	
(57)		Capital grants receipts in advance		(58)	
(88,206)		Liability related to defined benefit		(10,344)	
	(251,330)				(162,866)
	358,061	**Net Assets**			**470,900**
		Usable Reserves			
(2,239)		General Fund		(2,052)	
(893)		Housing Revenue Account		(586)	
(34,685)		Earmarked reserves		(32,122)	
(25)		Profit and Loss Reserve		(43)	
(2,290)		Capital receipts reserve		(4,148)	
(5,457)		Capital grants unapplied		(8,052)	
	(45,589)				(47,003)
		Unusable Reserves			
(244,684)		Revaluation reserve		(285,811)	
(160,720)		Capital adjustment account		(149,069)	
480		Financial instruments adjustment a/c		432	
88,206		Pensions reserve		10,344	
4,017		Collection fund adjustment account		17	
229		Short-term accumulating absences a/c		190	
	(312,472)				(423,897)
	(358,061)	**Total Reserves**			**(470,900)**

Group Cash Flow Statement

The Cash Flow Statement shows the Group's changes in cash and cash equivalents during the reporting period. The statement shows how the Group 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 Group are funded by council tax and grant income or from the users of services provided by the Group. Investing activities represent the extent to which outflows have been made for resources which are intended to contribute to the Group's future service delivery.

2021/22 £'000	**Re-stated**	**2022/23 £'000**
(3,734)	**Net (surplus) or deficit on the provision of services**	**10,947**
(9,765)	Depreciation and impairment	(11,195)
(5,631)	Impairment and downward revaluations	(16,722)
(154)	Amortisation	(290)
(170)	Change in impairment for bad debts	(96)
(20,150)	(Increase)/decrease in creditors	18,424
(18,068)	Increase/(decrease) in debtors	(420)
118	Increase/(decrease) in inventories	(4)
(5,137)	Movement in pension liability	(3,822)
0	Movement in investment property values	(2,005)
(4,420)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(8,490)
28	Other non-cash items charged to the net surplus or deficit on the provision of services	31
(63,349)	**Adjustments to net surplus or deficit on the provision of services for non-cash movements**	**(24,590)**
1,621	Capital grants credited to the surplus or deficit on the provision of services	3,495
5,907	Proceeds from the sale of property, plant and equipment	10,353
(59,555)	**Net Cash flows from operating activities**	**205**
24,619	Purchase of property, plant & equipment, investment property and intangible assets	14,874
204,496	Purchase of short-term and long-term investments	205,396
0	Other payments for investing activities	0
(5,907)	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(10,353)
(175,979)	Proceeds from investments	(222,700)
(1,689)	Other receipts from investing activities	(3,860)
45,540	**Net Cash flows from Investing Activities**	**(16,642)**
(13,000)	Cash receipts of short- and long-term borrowing	(15,000)
34,145	Repayments of short- and long-term borrowing	21,913
(6,173)	Other payments for financing activities	7,418
14,972	**Net Cash flows from Financing Activities**	**14,331**
957	**Net (increase) or decrease in cash and cash equivalents**	**(2,106)**
(1,281)	Cash and cash equivalents at the beginning of the reporting period	(324)
(324)	Cash and cash equivalents at the end of the reporting period	(2,430)

NOTES TO THE GROUP ACCOUNTS

1. Explanation of the Group Balance Sheet

The Group Balance Sheet shows the value at the Balance Sheet date of the assets and liabilities recognised by the Group. The group comprises Canterbury City Council and Canterbury Environment Company, a wholly owned subsidiary. The net assets of the Group (assets less liabilities) are matched by reserves held by the Group. Reserves are reported in two categories, usable and unusable reserves. Usable reserves can be used to provide services, subject to any statutory limitation on their use (for example, Capital Receipts Reserve may only be used to fund capital expenditure or to repay debt). Unusable reserves are those that the Group is not able to use to provide services and includes reserves that hold unrealised gains and losses (for example, gains held in the Revaluation Reserve can only be used towards service provision if the assets are sold).

2. Basis of Consolidation

The Group Accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of the Council and Canterbury Environment Company Ltd. This company is a wholly owned subsidiary of the Council. Consequently any gains or losses arising from this company are fully reflected in the Group CIES, the Group Balance Sheet, Group Movement in Reserves Statement and Group Cashflow Statement.

Any intra-group charges and transactions are eliminated via the consolidation, such as contract payments, support service charges and loan interest payments.

The 2022/23 accounts of Canterbury Environment Company Ltd remain subject to audit.

3. Accounting Policies and Notes to the Group Financial Statements

For the Group Financial Statements, there are no material differences, compared to the Council's own notes to its accounts (including its accounting policies), that require further disclosure.

4. Re-statement of 2021/22 Group Financial Statements

The Group accounts for 2021/22 have been re-stated to reflect some audit adjustments that were required to be made to Canterbury Environment Company Ltd's own accounts. The adjustments resulted in an additional £33k being charged to the company's profit and loss account in 2021/22.

- Impact on Group Total Comprehensive Income and Expenditure Account – net expenditure re-stated from £495k to £528k.
- Impact on Group Reserves – re-stated from £358,094k to £358,061k.
- Impact on Net Assets – re-stated from £358,094k to £358,061k.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In 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 and of the Group at the accounting date and its income and expenditure for the year ended 31 March 2023.

Signed

Nicci Mills
Date
Chief Financial Officer

Cllr
Date
Chair Audit Committee

Appendix 3

Grant Thornton

The Audit Findings Report for Canterbury City Council

Year ended 31 March 2023

March 2024

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management and the Audit Committee.

Sophia Brown

For Grant Thornton UK LLP

February 2024

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Canterbury City Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

Financial statements	
Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.	Our audit work was completed remotely during October-December 2023. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters; • receipt of management representation letter ; and • review of the final set of financial statements. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated financial statements audit report opinion will be unmodified. Our work on the Council's value for money (VFM) arrangements is not yet complete. The outcome of our VFM work will be reported in our commentary on the Council's arrangements in our 2022-23 Auditor's Annual Report (AAR). We are satisfied this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2023. Any significant weakness identified in our VFM work will be reported in the AAR.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021-22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible, and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk).

We would like to thank everyone at the Council for their support in working with us.

National context – level of borrowing

All councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on council budgets, there are concerns as councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. We performed a benchmarking analysis on long-term borrowing as a proportion of long-term assets (%), the average % of borrowing over assets is 31%. Canterbury is below average at 25% and is in the middle of the scale compared to other district councils.

2. Financial statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group, based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We have substantially completed our audit of your financial statements and we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 13 March 2024.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff of the Council.

2. Financial statements

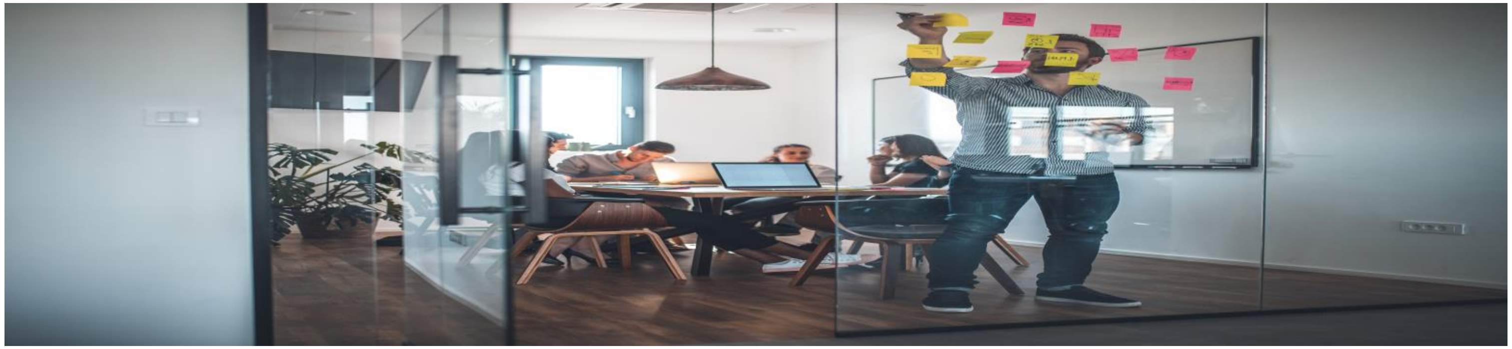
Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan.

We set out in this table our determination of materiality for Canterbury City Council and group.

	Group amount (£)	Council amount (£)	Qualitative factors considered
Materiality for the financial statements	2,807,000	2,768,000	We have determined financial statement materiality for the group based on a proportion of the gross expenditure of the groups for the financial year. Materiality of our audit equates to 2% of your gross expenditure for the period for group and council.
Trivial matters	140,000	138,400	We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at 5% of materiality.
Materiality for specific transactions, balances or disclosures senior officer remuneration	100,000	100,000	We have identified senior officer remuneration and termination benefits as disclosures where we will apply a lower materiality level, as they are considered sensitive disclosures. We have set a materiality of £100,000.
Materiality for specific transactions, balances or disclosures cash and cash equivalents	500,000	500,000	We have identified cash and cash equivalents as a balance where we will apply a lower materiality level, as it is considered sensitive balance. We have set a materiality of £500,000.



2. Financial statements – significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Fraudulent revenue recognition	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. In the Audit Plan we determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition; • Opportunities to manipulate revenue recognition are very limited; and • The culture and ethical frameworks of local authorities, including that of Canterbury City Council, mean that all forms of fraud are seen as unacceptable. There have been no changes to our assessment as reported in the Audit Plan. To gain assurance over revenue, we: • Documented our understanding of the revenue business process. • Tested a sample of revenue to gain assurance over the accuracy and occurrence of revenue recorded during the financial year. • Performed testing over post year-end receipts to assess completeness of revenue and receivables recognition.
Management override of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement. To address this risk, we: • Evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determined the criteria for selecting high risk unusual journals. • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work is complete, and we did not identify any material issues that require reporting.

2. Financial statements – significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings (including council dwellings)	The Council has the following types of properties that are valued: Other land & buildings: The Council re-values its land and buildings on a rolling five-yearly basis. Council dwellings: The Council measures its dwellings at fair value, determined using the basis of existing use value for social housing and is re-valued on a cyclical approach using the Beacon methodology. The valuations of land and buildings and council dwellings represents a significant estimate by management in the financial statements due to the size of the numbers involved, and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for investment properties included with other land and buildings) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which is one of the most significant assessed risks of material misstatement.
	To address this risk we : • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Wrote to the valuer to confirm the basis on which the valuation was carried out. • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation. • Tested revaluations made during the year to see if they had been input correctly into the asset register. • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. • Assessed the value of a sample of assets in relation to market rates for comparable properties. • Tested a sample of beacon properties in respect of council dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group. • Whitefriars Shopping Centre – given the complex nature of valuation (including assessment of impairment) and the current carrying value we used market reports issued from our own valuer and GT's internal real estate team to assess valuation of Whitefriars shopping centre. In our completeness check of other land and buildings we identified land and building per assets register system to be £264,454,130 instead of £257,449,258 per the valuation report. This overstatement of £7,004,871 was corrected by management in the revised statement of accounts. We have no other issues to report in relation to our work on the valuation of land and buildings, including council dwellings.

2. Financial statements – significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the pension fund net liability	The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. We have pinpointed this significant risk to the assumptions applied by the professional actuary in their calculation of the net liability, noting that the impact of the Local Government Pension Scheme 2022 triennial valuation will impact the Council's 2022-23 pension fund net liability. We have concluded that there is not a significant risk of material misstatement due to the source data used by the actuary in their calculation we will reconsider this if it becomes apparent at the year-end that there are significant special events relating to the source data (such as bulk transfers, redundancies or other significant movements of staff) which would need to be given special consideration during the audit. Despite not being considered a significant risk we still carry out testing and consideration of the source data to obtain sufficient and appropriate audit evidence that there is no material misstatement.
	To address this risk we: • Updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls. • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. • Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. • Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. • Undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. • Obtained assurances from the auditor of Kent County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. We have no issues to report in relation to our work on the valuation of the pension fund net liability.

2. Other risks identified

Risks identified in our Audit Plan	Commentary
Fraud in expenditure recognition	As most public bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk that the Council may manipulate expenditure to that budgeted by under-accruing non-pay expense incurred during the period or not record expenses accurately to improve financial results. In line with the Public Audit Forum Practice Note 10, having considered the risk in relation to fraud in expenditure recognition and the nature of the Council's expenditure streams we determine that the risk of fraud arising from expenditure can be rebutted because: • There is little incentive to manipulate expenditure recognition; • Opportunities to manipulate expenditure recognition are very limited; and • The culture and ethical framework of local authorities, including Canterbury City Council, mean that all forms of fraud are seen as unacceptable. However, we have identified that due to the level of estimation involved in manual accruals of expenditure, and the potential volume of large accruals at year end, there is an increased risk of error in the completeness of expenditure recognition.
	To address this risk we: • Inspected transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period. • Inspected a sample of accruals made at year end for expenditure but not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year. We compared listings of accruals(creditors) to the previous year to ensure completeness of accrued items. • Investigated manual journals posted as part of the year end accounts preparation that reduce expenditure, to assess whether there is appropriate supporting evidence for the transaction. We have no issues to report in relation to our work on expenditure completeness.

2. Financial statements - key findings arising from the group audit

Component	Findings	Group audit impact
Canterbury City Council	We plan to issue an unmodified audit opinion for Canterbury City Council. No material issues were identified which will have an impact on the group.	None
Canterbury Environment Company (CanenCo)	We performed an analytical review of income, expenditure, assets and liabilities. No material issues were identified which will have an impact on the group.	None

2. Financial statements – key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Valuations of land and buildings, including investment properties and council dwellings	The Council carries out a rolling programme of revaluations that ensures that all property, 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 are valued at year end. Revaluations for 2022-23 were carried out internally by RICS qualified valuer, with the exception of Whitefriars Shopping Centre which was valued by Knight Frank. The remaining assets are valued at depreciated replacement cost (DRC) and are based on the cost of a modern equivalent asset delivering the same service provision. Council dwellings were valued on existing use value, determined using the basis of existing use value for social housing (EUV-SH). 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.	We considered and completed the following in the course of our testing: - assessment of management's expert, the internal valuers and Knight Frank; - completeness and accuracy of the underlying information used to determine the estimate; - impact of any changes to valuation method; - consistency of estimate used by the council's valuer; - reasonableness of any change in estimate overall; and - adequacy of disclosure of estimate in the financial statements. We have completed our work over this area and have found no material issues to report.	● Light purple

Assessment

- ● Dark purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Light purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Valuations of net pension liability – LGPS	The Council recognises and discloses the retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'. At 31 March 2023 the Council has a net pension liability of £10.3m (2021-22 £88.2m) relating to the Local Government Pension Scheme, as administered by Kent Pension Fund. Canterbury City Council uses an external actuary Barnett Waddingham to provide an actuarial valuation estimate of the Council's assets and liabilities deriving from these schemes. A full valuation is required every three years. The latest full actuarial valuation was completed in 2022-23 for the LGPS. A roll forward approach is used in intervening periods. The valuations are based on key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability small changes in assumptions can result in significant valuation movements.	• We assessed management's actuarial expert and concluded they are clearly competent, capable and objective in producing the estimate. • We carried out analytical procedures to conclude on whether the Council's share of LGPS pension assets and liabilities was reasonable. We concluded the Council's share of assets and liabilities was analytically in line with our expectations. • We engaged an auditor's actuary expert to challenge the reasonableness of the estimation method used and the approach taken by the actuary to verity the completeness and accuracy of information used. We were satisfied that the actuary was provided with complete and accurate information about the workforce, and that the method applied was reasonable. • The auditors' expert provided us with indicative ranges for assumptions by which we have assessed the assumptions made by management's expert. As set out below all assumptions were within the expected range and were therefore considered:	Light purple

Assumption	Actuary Value	PWC range	Assessment
Discount rate	4.80%	4.8- 4.85%	Within expected ranges
Pension increase rate	2.95%	2.65 – 2.95%	
Salary growth	3.95%	3.95%	
Life expectancy – Males currently, aged 45 Future pensioners	21.6 22.3	19.5 – 22.1 20.9 – 23.4	
Life expectancy – Females currently aged 45 Future pensioners	23.5 25.0	22.9 - 24.5 24.3 – 25.9	

Assessment

- Dark purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Provisions for NNDR appeals - £5.042m (2021-22 £4.781m)	The Council is responsible for repaying a proportion of successful rateable value appeals. Management uses an external organisation Valuation Office Agency's (VOA) rating list. The calculation is based upon the latest information about outstanding rates appeals provided by the VOA and previous success rates. Due to an increase in outstanding appeals, the provision has increased by £0.261m in 2022-23.	We considered and completed the following in the course of our testing: • Appropriateness of the underlying information used to determine the estimate; • Impact of any changes to valuation method; • Consistency of estimate against prior year estimate; • Reasonableness of increase in estimate; and • Adequacy of disclosure of estimate in the financial statements. No issues to report, estimate is reasonable.	● Light purple
Minimum Revenue Provision - £8.527m (2021-22 £7.188m)	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £8.527m a net increase of £1.399m from 2021/22.	We considered and completed the following in the course of our testing: • Whether the MRP has been calculated in line with the statutory guidance; • Whether the Council's policy on MRP complies with statutory guidance; • Assessed whether any changes to the Council's policy on MRP have been approved by Full Council; and • Reasonableness of the change in MRP charge. No issues to report, estimate is reasonable.	● Light purple

Assessment

- ● Dark purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Light purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial statements – information technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating			
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks
Integra	ITGC assessment (design and implementation effectiveness only)	Green	Green	Green	Green	Management override of controls

Assessment

- Red Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Yellow Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- Green IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- Grey Not in scope for testing

2. Financial statements – other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council.
Confirmation requests from third parties	We requested from management permission to send a confirmation requests to relevant Investments held with third parties. This permission was granted, and the requests were sent out with all requests having been received.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	During the audit we encountered some difficulties in obtaining timely responses from the Council which delayed audit progress. As a result, we allocated additional resource to ensure that the audit was complete within the agreed timescales. Overall, we feel the audit and finance teams worked constructively together to resolve outstanding audit queries to achieve the completion of the audit.

2. Financial statements – other communication requirements

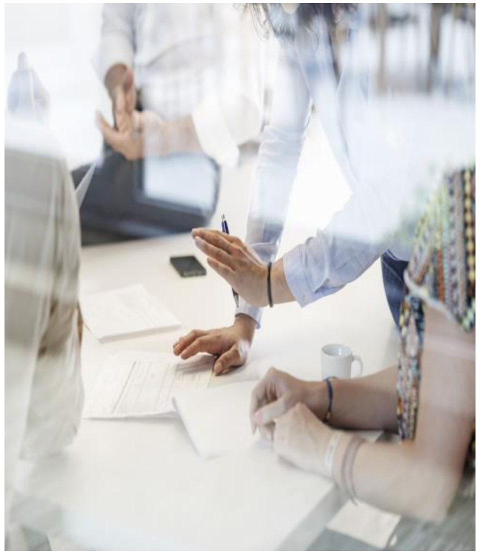
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • The use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities; and • For many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates; • the Council's financial reporting framework; • the Council's system of internal control for identifying events or conditions relevant to going concern; and • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified; and • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial statements – other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements, including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • If the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit; or • If we have applied any of our statutory powers or duties We have nothing to report on these matters. • Where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses. Our detailed work on VFM is not yet complete and will be reported in our 2022-23 Auditor's Annual Report at the next Audit Committee meeting.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that detailed work is not required as the Council does not exceed the threshold specified by the NAO.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2022-23 audit of Canterbury City Council in the audit report, due to incomplete VFM work.



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022-23

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3–5 years).

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Our 2022-23 VFM work is in progress and our detailed commentary will be set out in the separate 2022-23 Auditor's Annual Report. We wrote to the Audit Chair in September 2023 to inform of the delay to our 2022-23 VFM work.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies. Details of fees charged are detailed in Appendix E.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified:

Service	Fees £	Threats identified	Safeguards
Audit related			
Housing Benefit Assurance Process	43,000	Self-interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is lower in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Council or investments in the Council held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Council as a director or in a senior management role covering financial, accounting or control-related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Council.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Council, senior management or staff that would exceed the threshold set in the Ethical Standard.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action plan – audit of financial statements

We have identified [2] recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management, and we will report on progress on these recommendations during the course of the 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● (Medium)	In our testing of Assets held for sale we identified that a decision taken to sell car park was made however decision was later rescinded and AHFS was to be transferred back to L&B car park asset in 23/24. We recommend this assets value £1.4555 million should be reclassified as other land and building.	We recommend a review process should be implement where AHFS register is reviewed and updated for any change since last decision for sale was made **Management response** Management Agreed to improve processes and add additional review process for 23/24
● (Medium)	In our sample testing for debtors, we found out that income received in advance was recognised as pre-payments. These should have been recorded as payments received in advance. In our samples testing for creditors, we noted that the council has included in creditors balance the Short-term borrowings principal repayable in 23-24 for the balance due till March 23. It is a classification error. The balance repayable for loan cannot be classified as creditors and should be shown as short-term borrowings. The sample relates to a class of transactions i.e. Borrowings and hence it is not representative of the whole creditors balance. The total value included in creditors balance related to borrowings accrual is £1,240k (Under revenue creditors).	We recommend that the council review their creditor and debtor balances at year end for accuracy to ensure errors are avoided. **Management response** Management Agreed to improve processes and add additional review process for 23/24

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

C. Prior year audit recommendations – follow up

We identified the following issues in our 2021-22 audit of the group's financial statements, which resulted in eight recommendations being reported in our 2021-22 Audit Findings Report (AFR). Our planned audit includes a review of these recommendations, and we have reported in our Audit Findings Report whether management have implemented our recommendations, or they are still ongoing.

Assessment	Issue and risk previously communicated	Implemented
Ongoing	**Super user access** – Our review of the journals process identified that a member of the finance team has been granted administrative super use access - this is consistent with prior year practices at the Council. We performed testing over journals posted by the super user and also performed a reasonability test on journals posted by users created by the super user. We have not identified any issues. The combination of operational/financial responsibilities with the ability to administer end user security is considered a segregation of duty conflict. It creates a risk that system-enforced internal controls could be bypassed, leading to unauthorised changes being made to user accounts and logging mechanisms. **Recommendation**: We recommend that the management review the list of users with administrative access and confirm if it aligns with their roles and responsibility. In last year's report only a member of was identified as super user, and she has left the firm. In 2022-23 two members of Council's finance team have access to ledger as super users. We have tested journals posted by the individuals and reviewed any changes requested by these super users. We confirmed from our audit work that segregation of duty exist, and each journal gets approved another a supervisor. While we report this matter as recommendation, we confirmed from management that neither of the two individuals identified as super user post journals now, this is no longer a shared role and only the system's officer has access to financial system but does not have role of posting or authorising journals.	No
Implemented	**Grant register** – The Council does not maintain a grant register which details grant categories, date of receipt, or description of applicable conditions. We appreciate that in recent times there has been a large volume of Covid-related grants, with grant funds credited to the Council with little notice or explanation. Going forward the volume of Covid-related grants will reduce, and a well-managed grant register will enable the Council to improve its grant keeping records, ensuring robust controls for both internal and external monitoring. **Recommendation**: Clear roles and responsibility should be established for creating, managing and updating the Council's grant register with details of grant categories, date of receipt, or description of applicable conditions. In 2022-23 we tested grants income and did not identify any issues with records kept for grants received in year along with grants received in advance.	Yes

C. Prior year audit recommendations – follow up

Assessment	Issue and risk previously communicated	Implemented
Implemented	**Heritage assets valuation** – The Council has £12.3mof heritage assets. The Council has not valued heritage assets since 2020. Although valuation of heritage assets do not move as much as land and building or HRA valuations, the Council should review the value of heritage assets annual to ensure that any material changes are reflected in the balance sheet. The most common valuation method for heritage assets is the insurance value. We have performed a stress test on heritage assets based on an average increase in such assets across the Kent region and estimated that a 5% move in insurance values would have an impact of £616k, below our headline materiality but above but above triviality, The Council has decided not to adjust the accounts based on this estimated audit difference. **Recommendation**: Management should review the value of heritage assets annually to ensure that any material changes are reflected in the balance sheet. In 2022-23 management has used insurance values to value the heritage assets in line with the Code.	Yes
Implemented	**Brought forward creditors** – In the creditor balance £2.952m relates to a brought forward balance. We were unable to obtain evidence that three items tested in this balance remained payable at 31 March 2022 - the brought forward annual leave accrual, RPSH agreement and Whitefriars brought forward account balance. The total impact of these three brought forward creditor items is £688k. **Recommendation**: Management should perform a review of carried forward opening creditor balances and ensure to account for only those creditors that still payable at year end. In 2022-23 the Council has been able to produce backing documents, such as invoices and correspondence, to evidence opening balances that remain outstanding at year end.	Yes
Ongoing	**Assets under construction** – Records for assets under construction are not maintained to reflect the current position of projects. **Recommendation**: Management should introduce a record which is maintained for the exact stage of completion for each ongoing project so it is able to assess ongoing viability, document changes to expected costs and completion date, and assess if any elements of the AUC should be impaired. The record should reflect each project from start to finish. In 2022-23 the Council is still working to produce a register for assets under construction which details the exact stage of completion for each ongoing project. Currently, no formal impairment review is documented for assets under construction. Management confirmed that individual project managers hold a record, and they will introduce a central compilation of all of them going forward. The 21/22 audit report was finalised on 31 March 2023, so there was little time to implement for 22/23 and during audit of the financial year 22-23 auditors did not identify any material impairment in relation to Assets under construction held by the council.	No

C. Prior year audit recommendations – follow up

Assessment	Issue and risk previously communicated	Implemented
Ongoing	Derecognition of assets – In 2021-22 the Council disposed and wrote off £4.52m of assets. While testing the derecognition we have identified that the Council does not consistently approve the write off for fully depreciated asset. This is not a significant issue but is recommended so the Council can follow sector best practices. Recommendation: We recommend that the council should maintain record of projects held under assets under construction from start to reporting date and completion certificates received for ongoing projects and an assessment of stage of completion. In 2022-23 we identified assets with a gross book value of £6.03m which were fully depreciated but still formed part of fixed assets register. We recommend that the Council reviews its fully depreciated assets to remove them from the asset register if they are no longer in use. Management have agreed to address this issue by reviewing the FAR for any assets that are fully depreciated, management responded that timing of the final audit for 21/22 meant there was little time for implementation.	No
Implemented	Land valuation – For three items we identified that land values used by the Council did not represent current market value. For Marlow theatre, Royal Museum and Beaney Institute, and land south of Whitstable Harbour land values were different to market value by £261k, -£168k and-£266k respectively, with total net impact of -£173k. We also noted that some evidence to support land values was not retained appropriately by the internal valuer and would recommend a introduction of an information storage process for valuation evidence. Recommendation: Management should introduce an information storage process for land valuation evidence. No issues identified in 2022-23.	Yes
Ongoing	Expert data – Our other land and building revaluation work identified a £2.36m difference between the fixed asset register (FAR) and the internal valuer's revaluation spreadsheet workings - the FAR showed the correct value which was £2.36m lower than the valuer's workings. The internal valuer's workings were subsequently corrected. Not performing key reviews over expert data, typically involving material estimates can result in critical data inputs being incorrect. Recommendation: Management should document review and challenge of data coming from its experts, with reconciliations between expert data and Council data performed to provide assurance over completeness. In 2022-23 we found an error in the reconciliation of the fixed assets register and valuation report. We identified this as an adjusted misstatement for 2022-23, refer to Appendix D. Appropriate challenge from management is in place, where work done by valuer is reviewed and challenged for appropriateness, however we recommend the reconciliation process to be implemented before draft accounts are produced.	No

D. Audit adjustments – adjusted misstatements

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

Detail	Comprehensive Income and Expenditure Statement £000	Statement of Financial Position £000	Impact on total net expenditure £'000	Impact on General Fund £000	Management comment
In our completeness check of other land and buildings we identified land and building per assets register system to be £264,454,130 instead of £257,449,258 per the valuation report. This overstatement of £7,004,871 was corrected by management in the revised statement of accounts.		Revaluation reserve 7,004 Other land and building (7,004)			Adjusted
The above errors in PPE valuation has a related impact of depreciation, the net impact now decreases depreciation charge for the year by (0.377m) and increase surplus & deficit on provision of services of the year by £0.377m	surplus & deficit on provision £0.377 CAA accounts (£0.377)				Adjusted
Creditors – We identified that the short-term borrowings principal repayment balance for March 2023 was included within creditors. This is a classification error. The balance should be shown as short-term borrowings. The total value included in the creditors balance for the borrowings accrual is £1.240m (included as revenue creditors) – we recommend reclassification to short-term borrowings.		Creditors 1,240 Short-term borrowing (1,240)			Adjusted
Debtors – We identified £0.628m of income received in advance that was recognised as pre-payments. We recommend correction by this by reclassifying the amount from debtors to creditors.		Creditors(deposits in advance) 628 Debtors(payment in advance) (628)			Adjusted
Overall impact	£0	£0	£0	£0	

D. Audit adjustments – unadjusted misstatements

Impact of unadjusted misstatements

The table below provides details of audit adjustments identified during the 2022-23 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £000	Statement of Financial Position £000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
Assets held for sale (AHFS) – We identified that for one AHFS the decision to sell the asset was later rescinded in 2022-23 and the asset was transferred back to land and buildings during 2023-24. The correction of this asset classification should be made in the 2022-23 statement of accounts.		Other land and building 1,455 Assets held for sale (1.455)			Not material to the council l
Overall impact	£0	£0	£0	£0	£0

D. Audit adjustments – presentation and disclosure

Presentation and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Auditor recommendations	Adjusted?
Grant income (credited to services) Per the draft accounts, grant income in Note 20 was £54,406,176. We were provided with the breakdown of this balance and we noted that the Council had recorded income for grants where Council act as an agent and an appropriation entry for the budget stabilisation reserve which should have a nil impact on grant income disclosure. A correction of £12,747,788 has been made, and grant income in Note 20 is correctly reflected as £41,658,388. This is disclosure error with no impact on grant income.	Note 20 should be amended to reflect the correct grant income value. **Management response** Financial statements amended	✓
HRA disclosure errors 1. Note 8 – average rents disclosed as 97.91 for 2021-22 and 94.21 in 2022-23 but should be disclosed as 97.91 for 2022-23 and 94.21 for 2021-22. 2. HRA Statement – non-dwellings and leaseholder charges for services and facilities were incorrectly disclosed as £0.336m and £0.571m, respectively. Correct disclosure is non-dwellings charges £0.571m and leaseholder charges £0.336m.	Note 8 to be amended to reflect correct values. **Management response** Financial statements amended	✓
Short term debtors Note 14.1 Short term debtors disclosed were £3.285m instead of £3.110m.	Note 14.1 should be corrected to show the correct values. **Management response** Financial statements amended	✓

D. Audit adjustments – presentation and disclosure

Presentation and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Auditor recommendations	Adjusted?
Payment in advance The Council has prepayments consisting of short term (£0.387m) and long term (£1.187m) prepayments totalling £1.574m. This is disclosed in the balance sheet but not included in the debtors disclosure as required by the Code. This has been amended and correctly disclosed taking in allowances for adjustment made in the previous page and is disclosed on note 14.3.	Debtors note should include prepayments. **Management response** Agreed to amend	✓
Group cash flow statement We have identified the following changes are needed to the group cash flow statement: - (Increase)/Decrease in creditors – understated by £0.185m Increase/(Decrease) in debtors – overstated by £0.150m The errors have occurred due to the Council (Parent) cash flow statement not being updated in the group workings with the latest version of the cash flow statement. These are disclosure errors and accounts updated now	Group cash flow statement to be corrected. **Management response** Agreed to amend	✓
Related party transaction (RPT) disclosure In our group consolidation work we noted that intercompany income/expense is material. This should be disclosed within the RPT disclosure of the Council to adhere with Code guidance.	RPT disclosure to be updated. **Management response** Financial statements amended	✓

E. Fees and non-audit services

We confirm below our final fees charged for the audit. Fee for non audit fee will be confirmed when we commence the work.

Description	Proposed 2022-23 fee £
Scale fee published by PSAA 2019	42,325
Annual increases due to regulatory changes, enhanced audit procedures, revised ISAs since 2019-20	
• Increase PPE revaluation procedures	3,125
• Increased pension liability procedures	2,188
Additional work on Value for Money under the new NAO Code	9,000
Auditor expert valuer	4,103
Increased audit requirements of revised ISA 540	2,100
Increased journal testing procedures	3,000
Group audit	3,000
Base audit fee 2021-22	**68,841**
New issues for 2022-23	
• Introduction of ISA 315	3,000
• Payroll change of circumstances procedures	500
• Collection Fund – reliefs testing	750
Total proposed audit fee 2022-23 (excluding VAT)	**73,091**
Fee proposed to account for additional work due to complexity/delays in auditing PPE, creditors and grant work (subject to PSAA approval)	**5,000**
Total proposed fee	**78,091**

F. Draft audit opinion

Independent auditor's report to the members of Canterbury City Council

Report on the audit of the financial statements.

Opinion on financial statements

We have audited the financial statements of Canterbury City Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2023, which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement, the notes to the financial statements including a summary of significant accounting policies, the Housing Revenue Account Income and Expenditure Statement, the Collection Fund Income and Expenditure Account, the notes to the Collection Fund accounts, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement, and notes to the group accounts including a summary of significant group accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2023 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

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In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Authority's and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's and the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Annual Governance Statement and the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE, or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

F. Draft audit opinion

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority and the Chief Finance Officer

As explained more fully in the Statement of Responsibilities the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority and the group without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

F. Draft audit opinion

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.

We enquired of management and the Audit Committee, concerning the group and Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and fraud in income and expenditure recognition. We determined that the principal risks were in relation to manual journals that altered the Authority's financial performance for the year, post year-end and closing journal entries. We considered whether there was any potential management bias in accounting estimates or any significant transactions with related parties which could give rise to an indication of management override. Our audit procedures included:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on significant journals at the end of the financial year which had an impact on the Authority's financial performance,
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of valuation of land and buildings including council dwellings, and the valuation of net pensions liability; and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's:

F. Draft audit opinion

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation;
- knowledge of the local government sector in which the group and Authority operates; and
- understanding of the legal and regulatory requirements specific to the Authority and group including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA/LASAAC and SOLACE
  - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2023.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

F. Draft audit opinion

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Canterbury City Council for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2023. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2023

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Sophia Brown, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

Date:

G. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible.
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance.
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

Grant Thornton

grantthornton.co.uk

Appendix 4

Date: 21/02/2024
Ask for: Nicci Mills
Phone: **01227 869**
E-mail: nicci.mills@canterbury.gov.uk

Grant Thornton UK LLP
30 Finsbury Square
London EC2A 1AG

13 March 2024

Dear Grant Thornton UK LLP

Canterbury City Council

Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of Canterbury City Council and its subsidiary undertaking, Canterbury Environment Company, for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the group and Council financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include valuation of land and buildings and the valuation of net pensions liability. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the group and Council financial statements:

   a. there are no unrecorded liabilities, actual or contingent;

   b. none of the assets of the group and Council has been assigned, pledged or mortgaged; and

   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:

a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements;

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements.

xv. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.

xvi. The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

Information Provided

xvii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements, from whom you determined it necessary to obtain audit evidence.

xviii. We have communicated to you all deficiencies in internal control of which management is aware.

xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xx. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xxi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxvi. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxvii. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 13 March 2024.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of the Council

Appendix 5 - Glossary and explanations for statements of accounts to follow

Glossary of Terms **Appendix 5**

Accounting Policies
The rules and practices adopted by the Council that determine how transactions and events are reflected in the accounts.

Accruals
Amounts included in the accounts for income or expenditure in relation to activity in the financial year but not received or paid as at 31 March.

Actuarial Gains and Losses
These arise where actual events have not coincided with the actuarial assumptions made for the last valuations (known as experience gains and losses) or the actuarial assumptions have been changed.

Amortisation
A measure of the cost of economic benefits derived from intangible fixed assets that are consumed during the period.

Annual Governance Statement
The annual governance statement is a statutory document that explains the processes and procedures in place to enable the council to carry out its functions effectively.

Balance (or Reserves)
These represent accumulated funds available to the Council. Some balances (reserves) may be earmarked for specific purposes for funding future defined initiatives or meeting identified risks or liabilities. There are a number of unusable reserves, which are set out for technical purposes. It is not possible to utilise these to provide services.

Business Rates (NNDR/NDR)
Rates are payable on business premises based on their rateable value (last assessed in the 2017 Rating List by the Valuation Office Agency) and a national rate poundage multiplier. Canterbury acts as the “billing authority” for its area. A system of Tariffs and Top-ups as well as a Safety Net scheme operate within the Council’s General Fund to further adjust the amount the Council ultimately retains.

Capital Expenditure
Payments for the acquisition, construction, enhancement or replacement of assets such as land, buildings, and computer equipment.

Capital Adjustment Account
A reserve set aside from revenue resources or capital receipts to fund capital expenditure or the repayment of external loans and certain other capital financing transactions.

Capital Receipts
Income received from the sale of land, buildings or equipment.

Support Services
Support provided to front line services by administrative and professional officers, including financial, legal, human resources, IT, property and general administrative support.

CIPFA (Chartered Institute of Public Finance and Accounting)
CIPFA is the professional institute for accountants working in the public services. CIPFA publishes the Code of Practice on Local Authority Accounting ("the Code").

Collection Fund
An account that shows the income due from NNDR and Council Tax payers and the sums paid to central government and to the precepting authorities.

Community Assets
The class of fixed assets held by an authority in perpetuity that have no determinable useful life and may have restriction on their disposal, such as parks and open spaces, historical buildings, museum exhibits, etc.

Comprehensive Income and Expenditure Statement
A statement which details the total income received and expenditure incurred by the Council during a year in line with IFRS reporting as required by the Code.

Contingent Asset
An asset arising from past events, whereby its existence can only be confirmed by one or more uncertain future events not wholly within the control of the Council.

Contingent Liability
A contingent liability is either:

- a possible obligation arising from a past event whose existence will be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Council; or
- a present obligation arising from past events where it is not probable that there will be an associated cost or the amount of the obligation cannot be accurately measured.

Council Tax
A local tax on properties within the City Council district, set by the charging (Canterbury) and precepting authorities. The level is determined by the revenue expenditure requirements for each authority divided by the council tax base for the year.

Council Tax Base
The number of Band D equivalent dwellings in a local authority area. The number of properties in each council tax band is multiplied by the relevant band proportion in order to calculate the number of Band D equivalent properties in the area. The calculation allows for exemptions, discounts, appeals and a provision for non-collection.

Creditors
Amounts owed by the Council for goods and services received but not paid for as at 31 March.

Current Service Cost
An estimate of the true economic cost of employing people in a financial year. It measures the full liability estimated to have been generated in the year.

Debtors
Amounts owed to the Council for goods and services provided but where the associated income was not received as at 31 March.

Deferred Capital Receipts
Deferred capital receipts comprise amounts derived from sales of assets which will be received in instalments over agreed periods of time.

Defined Benefit Scheme
A pension or other retirement benefit scheme, where the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. Contributions are calculated at a level intended to balance the pension liabilities with investment assets.

Depreciation
A measure of the cost of the economic benefits of the tangible fixed assets consumed during the period.

Exceptional Items
Material items which derive from events or transactions that fall within the ordinary activities of the Council, which need to be disclosed separately by virtue of their size or nature to give a fair representation in the accounts.

Expected Return on Assets
For a defined benefit scheme, this is a measure of the return on the investment assets held by the plan for the year. It is not intended to reflect the actual realised return by the plan, but a longer-term measure based on the value of assets at the start of the year taking into account movements in assets during the year and an expected return factor.

Finance Lease
A lease that substantially transfers the risks and rewards of a fixed asset to the lessee. With a Finance Lease, the present value of the lease payments would equate to the fair value of the leased asset.

Fixed Assets
Assets that provide benefit to the Council and the services it provides for a period of more than one year.

General Fund
The account to which the cost of providing the Council Services is charged that are paid for from Council Tax and Government Grants (excluding the Housing Revenue Account).

Heritage Assets
The class of fixed assets with historical, artistic or environmental qualities, which are held and maintained mainly for their contribution to knowledge and culture, such as historic structures and art collections.

Housing Revenue Account (HRA)
A statutory account maintained separately from the General Fund for the recording of income and expenditure relating to the provision of council housing.

Impairment
A reduction in the carrying value of a fixed asset below its carrying value (due to obsolescence, damage or an adverse change in the statutory environment).

Interest Cost
For defined benefit pension schemes the interest cost is the present value of the liabilities during the year as a result of moving one year closer to being paid.

Infrastructure Assets
A class of long-lasting fixed assets that tend to be part of a larger system, and which are not usually capable of being sold, such as footpaths and sea defence structures.

Intangible Fixed Assets
'Non-financial' fixed assets that do not have physical substance but are identifiable and are controlled by the Council through custody or legal rights. Purchased intangibles, such as software licences, are capitalised at cost.

International Financial Reporting Standards
International Financial Reporting Standards (IFRS) are a set of accounting standards developed by an independent, not-for-profit organisation called the International Accounting Standards Board (IASB)

International Public Sector Accounting Standards (IPSAS)
International Public Sector Accounting Standards (IPSAS) are a set of accounting standards issued by the IPSAS Board for use by public sector entities around the world in the preparation of financial statements.

Levies
Payments made to the local drainage boards.

Long Term Debtors
These debtors represent the capital income still to be received, for example, from the sale of an asset or the granting of a loan.

Minimum Revenue Provision
The minimum amount that the Council must charge to the income and expenditure statement to provide for the repayment of debt.

Movement in Reserves Statement
This financial statement presents the movement in usable and unusable reserves (the Council's total reserve balances).

Net Book Value
The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value, less the cumulative amount provided for depreciation.

Net Realisable Value
The amount at which an asset could be sold after the deduction of any direct selling costs.

Non-Operational Assets
Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Operating Lease
A lease other than a finance lease. This is a method of financing assets which allows the Council to use, but not own the asset and therefore is not capital expenditure. A third party purchases the asset on behalf of the Council, who then pays the lessor an annual rental charge for the use of the asset.

Operational Assets
Fixed assets held and occupied, used or consumed by the local authority, in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Past Service Cost
A cost arising from decisions taken in the current year but whose financial effect is derived from years of service earned in earlier years.

Events After the Reporting Period
These events, both favourable and unfavourable, occur between the balance sheet date (31 March) and the date on which the statement of accounts are signed.

Precepts
These are demands made upon the Collection Fund by the precepting authorities for monies required to finance the services they provide. The precepting authorities are Kent County Council, Kent Police and Crime Commissioner, and Kent Fire and Rescue Service.

Prior Period Adjustment
A material adjustment applicable to prior years arising from changes in accounting policies or correction of fundamental errors.

Projected Unit Method – Pension Fund Valuation
An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependents, allowing where appropriate for future increases, and
- the accrued benefits for members in service on the valuation date.

Provisions
A liability that is of uncertain timing or amount which is to be settled by transfer of economic benefits.

Prudential Code
Since 1 April 2004, local authorities have been subject to a self-regulatory "prudential system" of capital controls. This gives authorities the freedom to determine how much of their capital investment they can afford to fund by borrowing. The objectives of the code are to ensure that the local authority's capital investment plans are affordable, prudent and sustainable, with Councils being required to set specific prudential indicators.

Related Parties
Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party, to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source, to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Advice from CIPFA is that related parties to a local authority include Central Government, bodies precepting or levying demands on the Council Tax, members and chief officers of the Council and its pension fund.

Related Party Transaction
A related party transaction is the transfer of assets or liabilities or the performance of services by, to, or for a related party, irrespective of whether a charge is made. Examples of related party transactions include:

- the purchase, sale, lease, rental or hire of assets between related parties;
- the provision of services to a related party, including the provision of pension fund administration services; and
- transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, rents and payments of benefits.

Reserves
An amount set aside for a specific purpose in one year and carried forward to meet future obligations.

Revenue Expenditure
Day to day payments on the running of Council services including salaries, wages, contract payments, supplies and capital financing costs.

Revenue Expenditure Funded From Capital Under Statute (REFCUS)
Legislation in England and Wales allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the balance sheet as a fixed asset. Examples include works on property owned by other parties, renovation grants and capital grants to other organisations.

The Code
The Code incorporates guidance in line with IFRS, IPSAS and UK GAAP Accounting Standards. It sets out the proper accounting practice to be adopted for the Statement of Accounts to ensure they 'present fairly' the financial position of the Council. The Code has statutory status via the provision of the Local Government Act 2003.

UK GAAP
UK GAAP is the Generally Accepted Accounting Practice in the UK. It is the body of accounting standards and other guidance published by the UK's Financial Reporting Council (FRC).

Item 9

Audit Committee

13 March 2024

Subject: Treasury Management Strategy, Investment Strategy and Capital Strategy for 2024/25

Director and Head of Service:

Nicci Mills, Service Director Finance and Procurement and s151 officer
Rob May, Head of Finance

Cabinet Member:

Councillor Mike Sole, Cabinet Member for Finance

Key or Non Key decision:

Key

Decision Issues:

These matters are within the authority of the Council

Is any of the information exempt from publication:

This report is open to the public.

CCC ward(s):

All

Summary and purpose of the report:

To advise the council on the Strategies to be adopted for Treasury Management, Capital and Investments for 2024/25 including approval of the Prudential Borrowing Limits for 2024/25 – 2026/27 and the policy on Minimum Revenue Provision.

To recommend:

a) that the attached Treasury Management Strategy including the Minimum Revenue Provision policy for 2024/25 be approved.

b) that the attached Capital Strategy for 2024/25 be approved.

c) that the attached Investment strategy for 2024/25 be approved.

Next stage in the process:
Consideration by Cabinet on the 25 March 2024

Disclaimer:

This report is intended for use solely in connection with Canterbury City Council's treasury management function and should not be used by other parties in connection with other investment or borrowing decisions.

Supporting information

1. **Introduction**

This report sets out the council's proposed Treasury Management Strategy, Investment Strategy and Capital Strategy. In previous years the information for treasury management and investments have been combined in a single strategy, however in December 2017, CIPFA issued revised Prudential and Treasury Management Codes. All local authorities are required to prepare an additional report, a Capital Strategy report, which is intended to provide the following:

- A high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- An overview of how the associated risk is managed
- The implications for future financial sustainability

The aim of this report is to ensure that all elected councillors fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

2. **Background**

2.1 Treasury Management Strategy

The council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in suitable counterparties or instruments commensurate with the council's risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the council's capital plans. These capital plans provide a guide to the borrowing need of the council, essentially the longer term cash flow planning to ensure that the council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet council risk or cost objectives. Details of the capital programme will accompany this report to council following approval by Cabinet on 25 March.

Treasury management is defined by CIPFA as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with

those activities; and the pursuit of optimum performance consistent with those risks "

2.1a CIPFA Requirements

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised December 2017) was adopted following approval from council for 2018/19.

The code identifies three key principles regarding the treasury management function:

KEY PRINCIPLE 1

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

KEY PRINCIPLE 2

Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations.Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

KEY PRINCIPLE 3

They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

It is CIPFA's view that throughout the public services the priority for treasury management is to protect capital rather than to maximise return. The avoidance of all risk is neither appropriate nor possible. However, a balance must be struck with a keen responsibility for public money.

CIPFA recommends that all public service organisations adopt the following four clauses:

1. This organisation will create and maintain a treasury management policy statement, stating the policies and objectives of the council's treasury management activities.

2. Receipt by full council of reports on its treasury management policies, practices and activities, including, the annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

3. This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Audit committee, and for the execution and administration of treasury management decisions to the Deputy Chief Executive, who will act in accordance with the organisation's policy statement and CIPFA's Standard of

Professional Practice on Treasury Management.

4. This organisation nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2.1b Reporting requirements

As stated above as the third requirement of the code, the council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Treasury Management Strategy

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision Policy (MRP) (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A Mid Year Treasury Management Report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

An Annual Treasury Report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Treasury Management budget forecasts will form part of the revenue budget monitoring reports and so the treasury management budget position will be monitored throughout the year. Also monthly treasury management statements showing the borrowing and investments position are prepared and reviewed by officers.

2.2 Capital Strategy

The council is required to produce a Capital Strategy that gives a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the delivery of council services.

The strategy includes the capital programme for 2024/25 to 2026/27 and provides details on the expenditure that the council incurs for service and regeneration purposes which the strategy classifies as investment for service purposes. The purpose of the strategy is to ensure that there is a clear understanding of the financial implications of the council's investment holdings for both treasury management and service delivery purposes.

Details of the prudential indicators are also included in the capital strategy.

2.3 Investment Strategy

This strategy focuses on the investments that are made with the aim of supporting public services (service investments) and to earn investment income (commercial investments).

The investments made using our surplus cash holdings are dealt with within the treasury management strategy.

3 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to councillors responsible for scrutiny. Training for the Audit Committee will be arranged as required. The training needs of treasury management officers are periodically reviewed.

4 Treasury Management Consultants

The council uses Arlingclose as its external treasury management advisors.

The council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review

5. Relevant Council Policy/Strategies/Budgetary Documents

Treasury management strategy, Capital Strategy, Investment Strategy, Commercial Property Management Strategy and Revenue and Capital medium term financial plans.

6. Options available with reasons for suitability

To recommend for approval or otherwise the Treasury Management Strategy, Capital Strategy and Investment Strategy which include Prudential Indicators, Capital Financing Requirement and Policy on Minimum Revenue Provision.

8. Reasons for supporting recommended option

The council should have treasury management, capital and investment strategies agreed prior to the start of the financial year and so it is recommended that this strategy is approved to ensure that we are complying with best practice.

9. Implications

(a) Financial Implications - included in the body of the report

(b) Legal Implications - none.

(c) Equalities - none.

10. Conclusions

Cabinet are asked to recommend to Council approval of the Treasury Management Strategy, the Capital Strategy and the Investment Strategy, the affordable borrowing limits and the Prudential Indicators, including the Capital Financing Requirement and the Minimum Revenue Policy for 2024/25 as set out in the attached strategies.

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Appendices

App 1 - Treasury Management Strategy and MRP statement
App 2 - Capital Strategy
App 3 - Non-Treasury Investment Strategy

Appendix 1

Canterbury City Council

Treasury Management Strategy Statement 2024/25

Introduction

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

External Context

Economic background: The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Authority's treasury management strategy for 2024/25.

The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level in September and then again in November. Members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

Office for National Statistics (ONS) figures showed CPI inflation was 6.7% in September 2023, unchanged from the previous month but above the 6.6% expected. Core CPI inflation fell to 6.1% from 6.2%, in line with predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling, declining to around 4% by the end of calendar 2023 but taking until early 2025 to reach the 2% target and then falling below target during the second half 2025 and into 2026.

ONS figures showed the UK economy grew by 0.2% between April and June 2023. The BoE forecasts GDP will likely stagnate in Q3 but increase modestly by 0.1% in Q4, a deterioration in the outlook compared to the August MPR. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

The labour market appears to be loosening, but only very slowly. The unemployment rate rose slightly to 4.2% between June and August 2023, from 4.0% in the previous 3-month period, but the lack of consistency in the data between the two periods made comparisons difficult. Earnings growth remained strong, with regular pay (excluding bonuses) up 7.8% over the period and total pay (including bonuses) up 8.1%. Adjusted for inflation, regular pay was 1.1% and total pay 1.3%. Looking forward, the MPR showed the unemployment rate is expected to be around 4.25% in the second half of calendar 2023, but then rising steadily over the forecast horizon to around 5% in late 2025/early 2026.

Having increased its key interest rate to a target range of 5.25-5.50% in August 2023, the US Federal Reserve paused in September and November, maintaining the Fed Funds rate target at this level. It is likely this level represents the peak in US rates, but central bank policymakers emphasised that any additional tightening would be dependent on the cumulative impact of rate rises to date, together with inflation and developments in the economy and financial markets.

US GDP grew at an annualised rate of 4.9% between July and September 2023, ahead of expectations for a 4.3% expansion and the 2.1% reading for Q2. But as the impact from higher rates is felt in the coming months, a weakening of economic activity is likely. Annual CPI inflation remained at 3.7% in September after increasing from 3% and 3.2% consecutively in June and July.

Eurozone inflation has declined steadily since the start of 2023, falling to an annual rate of 2.9% in October 2023. Economic growth has been weak, and GDP was shown to have contracted by 0.1% in the three months to September 2023. In line with other central banks, the European Central Bank has been increasing rates, taking its deposit facility, fixed rate tender, and marginal lending rates to 3.75%, 4.25% and 4.50% respectively.

Credit outlook:

Credit Default Swap (CDS) prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Q2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (November 2023):

Although UK inflation and wage growth remain elevated, the Authority's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.

A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A.

For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate/yield of 5%, and that new long-term loans will be borrowed at an average rate of 5%.

Local Context

On 31st December 2023, the Authority held £176m of borrowing and £16m of treasury investments. This is set out in further detail at ***Appendix B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	2022/23 Actual	2023/24 Forecast	2024/25 budget	2025/26 estimated budget	2026/27 estimated budget
	£'m	£'m	£'m	£'m	£'m
General Fund	8.91	24.59	8.24	2.97	2.97
Housing Revenue Account (HRA)	7.79	6.93	7.01	7.00	7.00
Total Expenditure	**16.70**	**31.52**	**15.25**	**9.97**	**9.97**
Capital Receipts	8.63	2.36	6.70	10.20	1.20
Grants & Contributions	0.00	0.00	0.00	0.00	0.00
Reserves & Revenue	4.39	4.74	4.20	4.20	4.20
Borrowing	3.68	24.42	4.35	(4.43)	4.57
Leasing and PFI	0.00	0.00	0.00	0.00	0.00
Total Financing	**16.70**	**31.52**	**15.25**	**9.97**	**9.97**

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Authority has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £29m over the forecast period.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2024/25.

Borrowing Strategy

The Authority currently holds £176 million of loans, a decrease of £5 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority expects to borrow up to £4.35m in 2024/25. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2024/25 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Authority has previously raised all of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow further short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- UK Infrastructure Bank Ltd
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except KCC Pension Scheme)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

Treasury Investment Strategy

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £11 and £30 million, and similar levels are expected to be maintained in the forthcoming year.

Objectives: The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy: As demonstrated by the liability benchmark above, the Authority expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the Authority may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

ESG policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Business models: Under the IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

Table 3: Treasury investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£10m	Unlimited
Secured investments *	25 years	£10m	Unlimited
Banks (unsecured) *	13 months	£10m	Unlimited
Building societies (unsecured) *	13 months	£5m	£25m
Registered providers (unsecured) *	5 years	£2.5m	£2.5m
Money market funds *	n/a	£10m	Unlimited
Strategic pooled funds	n/a	£10m	£50m
Real estate investment trusts	n/a	£10m	£50m
Other investments *	5 years	£10m	£20m

This table must be read in conjunction with the notes below

*** Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £10m per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £1,000,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

Investment limits: The Authority's revenue reserves available to cover investment losses are forecast to be £9 million on 31st March 2024 and £8 million on 31st March 2025. The maximum that will be lent to any one organisation (other than the UK Government) will be £10 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Additional investment limits

	Cash limit
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£20m per broker
Foreign countries	£5m per country

Liquidity management: The Authority uses a cash flow model to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.

The Authority will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

<u>Treasury Management Prudential Indicators</u>

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	**Target**
Portfolio average credit rating	A

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

Liquidity risk indicator	**Target**
Total cash available within 3 months	£5m

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£385,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£39,000

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

Maturity structure of borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	50%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	25%	0%
10 years and above	50%	5%
20 years and within 30 years	50%	5%
30 years and within 40 years	60%	10%
40 years and above	15%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Long-term treasury management investments: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

Price risk indicator	2024/25	2025/26	2026/27	No fixed date
Limit on principal invested beyond year end	£5m	£5m	£5m	£5m

Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

Financial derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Housing Revenue Account: On 1st April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Authority's average interest rate on treasury investments excluding strategic pooled funds, adjusted for credit risk.

Markets in Financial Instruments Directive: The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status

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Financial Implications

The budget for investment income in 2024/25 is £125,000, based on the assumption that cash balances will be kept at a minimum to finance capital investment. The budget for debt interest paid in 2024/25 is £4.99 million, based on an average debt portfolio of £174 million at an average interest rate of 2.75%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, then 50% of the revenue savings will be transferred to a treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The S151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast – November 2023

Underlying assumptions:

- UK inflation and wage growth remain elevated but, following a no-change MPC decision in November, Bank Rate appears to have peaked in this rate cycle. Near-term rate cuts are unlikely, although downside risks will increase as the UK economy likely slides into recession and inflation falls more quickly.
- The much-repeated message from the MPC is that monetary policy will remain tight as inflation is expected to moderate to target slowly. In the Bank's forecast, wage and services inflation, in particular, will keep CPI above the 2% target until 2026.
- The UK economy has so far been relatively resilient, but recent data indicates a further deceleration in business and household activity growth as higher interest rates start to bite. Global demand will remain soft, offering little assistance in offsetting weakening domestic demand. A recession remains a likely outcome.
- Employment demand is easing, although the tight labour market has resulted in higher nominal wage growth. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household spending will therefore be weak. Higher interest rates will also weigh on business investment and spending.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant policy loosening in the future to boost activity.
- Global bond yields will remain volatile, particularly with the focus on US economic data and its monetary and fiscal policy. Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.
- There is a heightened risk of geo-political events causing substantial volatility in yields.

Forecast:

- The MPC held Bank Rate at 5.25% in November. We believe this is the peak for Bank Rate.
- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.
- The immediate risks around Bank Rate remain on the upside, but these diminish over the next few quarters and shift to the downside before balancing out, due to the weakening UK economy and dampening effects on inflation.
- Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.28	4.35	4.30	4.25	4.10	4.00	3.75	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.32	4.40	4.35	4.30	4.25	4.15	4.00	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.78	4.70	4.65	4.55	4.45	4.35	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.38	4.30	4.25	4.20	4.15	4.15	4.10	4.10	4.10	4.10	4.10	4.10	4.10
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate = Gilt yield + 1.00%
PWLB Certainty Rate = Gilt yield + 0.80%
PWLB HRA Rate = Gilt yield + 0.40%
UK Infrastructure Bank Rate = Gilt yield + 0.40%

Appendix B – Existing Investment & Debt Portfolio Position

	31 December Actual portfolio £m	31/12/2023 Average rate %
External borrowing:		
Public works Loan Board (PWLB)	155.80	2.76%
Local Authorities	22.00	0.36%
Total external borrowing	**177.80**	**2.71%**
Total Other Long Term Liabilities	0.00	0.00%
Total gross external debt	**177.80**	
Treasury investments		
Banks & Buildings Societies (unsecured)	0.00	0.00%
Money Market Funds	15.76	0.75%
Total treasury investments	15.76	
Net debt	**162.04**	
Non-treasury investments		
Soft loans	2.64	4.48%
Share in subsidiaries	0.00	0.00%
Property Unit Trust	91.19	6.03%
Loans to subsidiaries	0.22	2.50%
Total Non Treasury Investments	**94.05**	**13.01%**

Appendix C

Annual Minimum Revenue Provision Statement 2024/25

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The *Local Government Act 2003* requires the Authority to have regard to the former Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance.

- For capital expenditure incurred before 1st April 2008, MRP will be determined as 4% of the capital financing requirement in respect of that expenditure.
- For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments *or*[as the principal repayment on an annuity equal to the average relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods where the recommendations of the guidance would not be appropriate, where this is a shorter life than specified in the guidance this decision is delegated to the appropriate officer.
- For assets acquired by leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
- Where former operating leases have been brought onto the balance sheet due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.
- For capital expenditure loans to third parties, the Authority will make nil MRP unless (a) the loan is an investment for commercial purposes and no repayment was received in year or (b) an expected credit loss was recognised or increased in-year, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment on loans that are

investments for commercial purposes, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. Sufficient MRP will be charged to ensure that the outstanding capital financing requirement (CFR) on the loan is no higher than the principal amount outstanding less the expected credit loss. This option was proposed by the government in its recent MRP consultation and in the Authority's view is consistent with the current regulations.

- No MRP will be charged in respect of assets held within the Housing Revenue Account but depreciation on those assets will be charged instead in line with regulations.

Capital expenditure incurred during 2024/25 will not be subject to a MRP charge until 2025/26 or later.

Based on the Authority's latest estimate of its capital financing requirement (CFR) on 31st March 2023, the budget for MRP has been set as follows:

	31.03.2024 Estimated CFR £m	**2024/25 Estimated MRP £**
Capital expenditure before 01.04.2008	10.13	0.42
Unsupported capital expenditure after 31.03.2008	187.04	9.44
Loans to other bodies repaid in instalments	0.00	0.13
Total General Fund	**197.17**	**9.99**
Assets in the Housing Revenue Account	23.03	1.02
HRA subsidy reform payment	40.90	5.40
Total Housing Revenue Account	**63.93**	**6.42**
Total	**261.10**	**16.41**

Prudential Indicators 2024/25

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Details of the prudential indicators can be found in the Capital Management Strategy that is published alongside this Treasury Management Strategy Statement.

Appendix 2

Capital Strategy 2024/25

Introduction

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

Capital Expenditure and Financing

Capital expenditure is where the Authority spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

In 2024/25, the Authority is planning capital expenditure of £16.84m as summarised below:

	2022/23 actual	**2023/24 forecast**	**2024/25 budget**	**2025/26 estimated budget**
General Fund services	8.91	24.59	8.24	2.97
Council housing (HRA)	7.79	6.93	8.60	7.00
TOTAL	**16.70**	**31.51**	**16.84**	**9.97**

The 2024/25 General Fund capital projects include completion of major projects, the accommodation relocation and building Improvements.

Core principles to the Capital Programme

Capital investment decisions reflect the aspirations and priorities included within the Council plan and supporting strategies.

Schemes to be added to the capital programme will be put forward through the annual Finance sub committee process and prioritised according to availability of resources and specific scheme funding. Opportunities that arise outside of the budget setting period will be added to the programme if approved by Council. Opportunities will have been subject to appropriate feasibility studies and due diligence in the reporting process.

The cost of financing capital schemes, net of revenue benefits, are profiled over the individual timeframe to deliver each scheme and incorporated into the medium term financial strategy.

Commissioning and procuring for capital schemes will comply with the requirements set out in the Council's constitution, financial regulations and contract standing orders.

The current economic climate and inflation increases are impacting the capital programme for 2022/23 and 2023/24 leading to potential higher costs incurred on existing projects.

Governance: Directors and Heads of Service bid annually to include projects in the Authority's capital programme. Bids are collated by the finance team who calculate the financing cost (which can be nil if the project is fully externally financed). Finance Sub appraises all bids based on a comparison of strategic priorities against financing costs and makes recommendations to Cabinet. The final capital programme is then presented to and approved by Full Council in February each year.

- For full details of the Authority's capital programme, including the project appraisals undertaken, see: Cabinet Agenda 8 February 2024

- All capital expenditure must be financed, either from external sources (government grants, capital receipts and other contributions), the Authority's own resources (revenue and reserves) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2022/23 actual	**2023/24 forecast**	**2024/25 budget**	**2025/26 estimated budget**	**2026/27 estimated budget**
External sources	8.63	2.36	6.75	10.20	2.00
Own resources	4.39	4.74	4.20	4.20	4.20
Debt	3.68	24.41	5.89	-4.43	3.77
TOTAL	**16.70**	**31.51**	**16.84**	**9.97**	**9.97**

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of prior years' debt finance in £ millions

	2022/23 Actual	2023/24 Forecast	2024/25 budget	2025/26 budget	2026/27 budget
MRP	14.50	15.20	15.89	17.02	17.02
Capital receipts	0.00	0.00	8.32	0.00	0.00
TOTAL	14.50	15.20	24.21	17.02	17.02

The Authority's full minimum revenue provision statement is included in the Treasury Management Strategy, Appendix 1 to this report.

The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to decrease by £14m during 2024/25. Based on the above figures for expenditure and financing, the Authority's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	22/23 Actual	23/24 Forecast	24/25 budget	25/26 budget	26/27 budget
General Fund services	190.52	181.30	163.20	153.05	153.05
Council housing (HRA)	65.26	61.93	58.47	52.22	52.22
TOTAL CFR	**255.78**	**243.23**	**221.67**	**205.27**	**205.27**

Asset management: To ensure that capital assets continue to be of long-term use, the Authority has an asset management strategy in place. There is also a major project ongoing concerning the future of the Council's main office. Feasibility studies are commissioned whenever decision making is required on the best use of land.

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt.

Repayments of capital grants, loans and investments also generate capital receipts. The Authority plans to receive £19.3m from the sale of assets in the coming financial years. As detailed in Table 3 above it is planned £8.3m of this will be used to repay the short term borrowing required to support regeneration initiatives across the district.

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Due to decisions taken in the past, the Authority currently has £177m borrowing at an average interest rate of 4.39% and £21m treasury investments at an average rate of 4.85%.

Borrowing strategy: The Authority's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority therefore seeks to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.

The Authority does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

Projected levels of the Authority's total outstanding debt (which comprises borrowing, PFI liabilities, leases and transferred debt) are shown below, compared with the capital financing requirement (see above).

Table 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2023 actual	31.3.2024 Forecast	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget
Debt (incl. PFI & leases)	177.86	174.34	163.59	152.60	141.37
Capital Financing Requirement	255.78	264.10	250.53	234.13	234.13

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Authority expects to comply with this in the medium term.

Affordable borrowing limit: The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 6: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

Authorised Limit	**2023/24 limit**	**2024/25 limit**	**2025/26 limit**	**2026/27 limit**
Borrowing	227.19	218.68	204.85	204.85
HRA Settlement	43.56	38.19	32.68	32.68
Subtotal Borrowing	**270.75**	**256.87**	**237.53**	**237.53**
PFI and Leases	0.00	0.00	0.00	0.00
Total External Debt	**270.75**	**256.87**	**237.53**	**237.53**
Operational Boundary				
Existing Borrowing	266.75	253.25	236.92	236.92
Additional Borrowing	4.00	3.62	0.62	0.62
PFI and Leases	0.00	0.00	0.00	0.00
Total External Debt	**270.75**	**256.87**	**237.53**	**237.53**

Treasury investment strategy:

Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Authority's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Authority may request its money back at short notice.

Risk management:

The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

Governance:

Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Chief Financial Officer and the finance team, who must act in line with the treasury management strategy approved by council. Half yearly reports on treasury management activity are presented to Council. The audit committee is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

The Authority makes investments to assist local public services, including making loans to local community and amateur sports organisations.

Governance:

Decisions on service investments are made by the relevant service manager in consultation with the Director of Finance and must meet the criteria and limits laid down by the Council. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme. The S151 Officer is responsible for ensuring that adequate due diligence is carried out before investment is made.

Regeneration and Commercial Activities

With central government financial support for local public services declining, the Authority has the ability to invest in some commercial property mainly for financial gain. However, the Council has no plans to do so in the future. The Council has historical property holdings that generate income but they are mainly held for regeneration or strategic purposes. The council has more recently acquired strategic properties within the district for the purpose of supporting economic regeneration. The council's investment property holdings are currently valued at £2.34m providing a net return after all costs of 10.7%.

The authority holds £82m of investments in the Whitefriars Development Unit Trust. This property was purchased for long term regeneration purposes. Therefore, the property is included in Council's balance sheet as land and building assets rather than as an investment. The rental income levels have stabilised at a positive level given the current market conditions which is expected to be maintained during 2024/25.

From the date of the purchase of the first half of Whitefriars, any income above budget has been put in an earmarked reserve in order to smooth any income shortfalls over the lease renewal period. As at March 2023 the reserve balance stood at £1.5m

It is anticipated that part of the reserve balance will be required in this current year to cover income shortfalls.

The Council's Commercial Property Management Strategy sets out the strategy for managing its commercial property portfolio and an accelerated decision making process to allow swift purchase decisions to be made for properties that meet specific criteria.

Further details on regeneration and commercial activities and limits on their use are in the investment strategy.

Liabilities

In addition to debt of £177m detailed above, the Authority is committed to making future payments to cover its pension fund deficit (valued at £10.3m).

Governance: Decisions on incurring new discretional liabilities are taken in consultation with the Head of Finance.The risk of liabilities crystallising and requiring payment is monitored by Finance and reported as part of the budget monitoring report to Cabinet. New liabilities that fall outside of the budget framework are reported to full council for approval/notification as appropriate.

Revenue Budget Implications

Capital expenditure for the council is financed through a variety of sources, typically

- Receipts from the sale of capital assets
- Capital grants
- External contributions such as S106 or Community Infrastructure Levy
- The use of reserves or from revenue budget contributions

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue,offset by any investment income receivable.The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 7: Prudential Indicator: Proportion of financing costs to net revenue stream

	2022/23 actual	**2023/24 forecast**	**2024/25 budget**	**2025/26 budget**	**2026/27 budget**
GF Financing costs (£m)	11.49	12.06	12.16	12.19	12.19
Proportion of net revenue stream	65.39%	61.25%	59.83%	64.79%	63.07%
Proportion of income including rentals supported by financing	48.23%	47.37%	44.46%	47.22%	46.29%
	2021/22 actual	**2022/23 forecast**	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**
HRA Financing costs (£m)	5.84	6.47	6.20	6.74	6.87
Proportion of net revenue stream	22.60%	22.89%	20.46%	22.01%	22.23%

Further details on the revenue implications of capital expenditure are included within the 203/24 revenue budget.

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 40 years into the future. The Chief Financial Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable because of the financial viability analysis that has been completed for the planned expenditure.

Knowledge and Skills

The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Council pays for finance staff to study towards relevant professional qualifications including CIPFA, AAT and ACCA.

The council establishes project teams from all the professional disciplines from across the council as and when required. External professional advice is taken where required and will always be sought in consideration of any major property investment decision.

The Council currently employs Arlingclose Limited as treasury management advisers and utilises various other professional advisors as appropriate. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Training and regular member briefings are offered to members to ensure they have up to date knowledge and expertise to understand and challenge capital and treasury decisions taken by the Head of Finance.

Appendix 3

Non-Treasury Investment Strategy 2024/25

Introduction

The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

The statutory guidance defines investments as "all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios." The Authority interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Authority's definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

Treasury Management Investments

The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £1m and £35m during the 2024/25 financial year.

Contribution:

The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Further details:

Full details of the Authority's policies and its plan for 2024/25 for treasury management investments are covered in a separate document, the treasury management strategy.

Service Investments: Loans

Contribution:

The Council lends money to support local public services and stimulate local economic growth. There is a policy in place to allow for lending to the Council's subsidiaries that provide services.

Security:

The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority decisions on service investments are made in consultation with the Head of Finance and must meet the criteria and limits agreed by the Council. Most loans and shares are capital expenditure and will therefore also be approved by Council as part of the capital programme. Loans are secured against the borrower's assets where available.

In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to break even after all costs and makes loans based on an acceptable level of risk to the Council.

Table 1: Loans for service purposes in £ millions

Borrower	**Balance owing**	**Loss allowance**	**Net figure in accounts**
Kent County Cricket Club	2,506	(196)	2,310
Active Life	0	0	0
Almshouse Charity of Wynn Ellis	118	0	118
Polo Farm	7	(7)	0
Herne Bay Football club	10	(0)	10
TOTAL	**2,639**	**(203)**	**2,437**

Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts are shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment:

The Authority assesses the risk of loss before entering into and whilst holding service loans by evaluating the application and the financial standing of the organisation, using external professional advice and credit rating agencies where applicable. Full due diligence is completed for each loan that is awarded and repayments monitored through the council's regular budget monitoring process.

Requests for new loans are assessed on an individual basis and will be subject to full committee approval before being issued and so a limit on the loan exposure is not considered appropriate for this authority.

Service Investments: Shares

The Council does not currently hold any shares in companies.

Security:

One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered.

The Authority would assess the risk of loss before entering into and whilst holding shares by monitoring the financial position of the company and undertaking appropriate due diligence on the performance and viability of the company. This will be in conjunction with procuring external expert advice where required. Where they exist, credit ratings will be taken into account within the decision making process. Where the investment is to deliver alternative methods of service delivery the risk appetite will vary depending on the service outcomes.

Regular assessment of the company's financial and service delivery performance will be conducted as part of the authority's performance management process.

Non-specified Investments:

Shares are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

With central government financial support for local public services declining, the Council has the ability to invest in some commercial property mainly for financial gain. The Council has historical property holdings that generate income but they are mainly held for regeneration or strategic purposes. The council has more recently acquired strategic properties within the district for the purpose of supporting economic regeneration. The council's investment property holding (part of its long standing property holdings) is currently valued at £2.43m providing an annual rental return of around 5.75%. If the Council decided to purchase any investment properties in the future, under new restrictions, this would prevent the Council from borrowing from the PWLB for any purpose. Therefore, for this, if for no other reason, it is recommended that the Council does not purchase any property for commercial gain.

The authority holds £82m of investments in the Whitefriars Development Unit Trust. This property was purchased for long term regeneration purposes. Therefore, the property is included in the Council's balance sheet as land and building assets rather than as an investment asset. The rental income levels have stabilised at a positive level given the current market conditions which is expected to be maintained during 2023/24.

From the date of the purchase of the first half of Whitefriars, any income above budget has been put in an earmarked reserve in order to smooth any income shortfalls over the lease renewal period. As at March 2023 the reserve balance stood at £1,502,000.

It is anticipated that part of the reserve balance will be required in this current year to cover income shortfalls.

The Council's Commercial Property Management Strategy sets out the strategy for managing its commercial property portfolio and an accelerated decision making process to allow swift purchase decisions to be made for properties that meet specific criteria. A copy of this strategy can be found here Commercial Property Management Strategy. As mentioned above however, any purchases largely for financial gain would prevent the Council borrowing from the PWLB for any other purpose.

Security:

In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

Where value in accounts is at or above purchase cost: a fair value assessment of the Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2023/24 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to *full Council* detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

Risk assessment:

The Authority assesses the risk of loss before entering into and whilst holding property investments by evaluating the investment, using external professional advice and credit rating agencies where applicable. Full due diligence is completed for each investment and monitored through the council's regular budget monitoring process.

Liquidity:

Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Authority ring-fences income generated from the properties held for regeneration, holding surplus income generated above the income targets in a reserve to fund borrowing costs in future years, should the income target not be achieved.

Governance

Decisions on commercial investments are made by the Head of Finance in line with the criteria and limits approved by Full Council. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved by Council as part of the capital programme.

Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Authority and are included here for completeness.

The Authority has contractually committed to guaranteeing the pension liability for Civica, The Marlowe Trust and Active Life/Fusion. This is as part of the outsourcing deals that have been agreed.

The risk of the liability being realised is minimal as the services provided are likely to be returned to the council should the delivery partners be unable to meet their obligations. In this event the pensions liability will be subsumed within the council's overall liability and accounted for accordingly.

The Authority had committed to lending the subsidiary Canterbury Environment Company up to £1m for initial start up costs and cash flow. The company was set up in February 2021, a cash flow loan of £220,000 has been provided and repayments have started in 2023/24.

Borrowing in Advance of Need

Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The council follows this guidance and only borrows for cash flow purposes pertaining to the overall capital programme needs.

Capacity, Skills and Culture

Elected members and statutory officers: The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The council establishes project teams from all the professional disciplines from across the council as and when required. External professional advice is taken where required and will always be sought in consideration of any major property acquisition decision.

The Council currently employs Arlingclose Limited as treasury management advisers and utilise various other professional advisors as appropriate.

Training and regular member briefings are offered to members to ensure they have up to date knowledge and expertise to understand and challenge.

Commercial deals: Full due diligence is undertaken for all major regeneration schemes that the council decides to fund. This includes appropriate legal and other professional advice to ensure that the council complies with current guidance and that the scheme is in the best interests of the council. The finance team works with service managers to assess the viability for any projects. Finance staff attend regular training courses and have access to the prudential framework to ensure principles of the framework are adhered to.

Corporate governance: All major schemes are subject to the council's full decision making regime. In addition the medium term financial plan and the capital programme include full details of the planned expenditure as decisions are taken to proceed with projects.

Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

Table 5: Total investment exposure in £millions

Total investment exposure	**31.03.2023 Actual**	**31.03.2024 Forecast**	**31.03.2025 Forecast**
Treasury management investments	15.31	10.00	10.00
Service investments: Loans	2.64	2.49	2.34
Commercial investments: Property	2.43	2.43	2.43
TOTAL INVESTMENTS	**20.38**	**14.92**	**14.77**
Commitments to lend	1.00	1.00	1.00
Guarantees issued on loans	0.00	0.00	0.00
TOTAL EXPOSURE	**21.38**	**15.92**	**15.77**

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with.

Rate of return received: The council expects to receive interest on the treasury management investments only. As the council is using cash surplus to finance capital expenditure the expected return for the next few financial years is minimal.

The acquisition of property to support the regeneration and economic development of the district is done on the basis that the initial cost to the council will be zero, when taking into account income received from the assets compared to the cost of financing those assets.

The current economic climate is significantly impacting the council's rental income assumptions for 2023/24 and reserves set aside to cover rental losses are expected to be used in this financial year.

Item 10

Audit Committee

13th March 2024

Subject: 2023-24 Q3 Treasury Management report

Director and Head of Service:

Nicci Mills - Service Director Finance and Procurement

Officer:

Oksana Ivanova - Accountant

Cabinet Member:

Councillor Mike Sole - Cabinet Member for Finance

Key or Non Key decision: Non Key

Decision Issues:

These matters are within the authority of the Committee

Is any of the information exempt from publication:

This report is open to the public

CCC ward(s): All

Summary and purpose of the report:

This report details the results of the council's treasury management activities in Quarters 1-3 of financial year ending 31 March 2024

Note:

That the report is noted

Next stage in process:

Report to Audit Committee next quarter

DISCLAIMER: This report is intended for use solely in connection with Canterbury City Council's treasury management function and should not be used by other parties in connection with other investment or borrowing decisions.

Introduction

In April 2016 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports. This quarterly report provides an additional update.

This report includes the new requirement in the 2021 Code, mandatory from 1st April 2023, of quarterly reporting of the treasury management prudential indicators.

The Authority's treasury management strategy for 2023/24 was approved at a meeting on 9th February 2023. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

External Context

Economic background: UK inflation rates finally started to decline, mirroring the sharp but earlier drop seen in the Eurozone and US. Despite the fall, the Consumer Price Index (CPI) remained substantially in excess in the Bank of England's (BoE) 2% target, at 3.9% for November 2023. Market expectations for further rises in Bank Rate fell from October through to year end, indicating that the 5.25% level reached in August 2023 was indeed the peak for Bank Rate.

Economic growth in the UK remained weak over the period, edging into recessionary territory. In calendar Q3 2023, the economy contracted by 0.1%, following no change in Q2. Monthly GDP data showed a 0.3% contraction in October, following a 0.2% rise in September. While other indicators have suggested a pickup in activity in the subsequent months, Q4 GDP growth is likely to continue the weak trend.

July data showed the unemployment rate increased to 4.2% (3mth/year) while the employment rate rose to 75.7%. Pay growth edged lower as the previous strong pay rates waned; total pay (including bonuses) growth was 7.2% over the three months to October 2023, while regular pay growth was 7.3%. Adjusting for inflation, pay growth in real terms were positive at 1.3% and 1.4% for total pay and regular pay respectively.

Inflation continued to fall from its peak as annual headline CPI declined to 3.9% (down from 4.6%) in November 2023. The largest downward contribution came from energy and food prices. The core rate also surprised on the downside, falling to 5.1% from 5.7%.

The BoE's Monetary Policy Committee held Bank Rate at 5.25% throughout the period, although a substantial minority continued to vote for a 25 basis point rate rise. The Bank continues to tighten monetary policy through asset sales, as it reduces the size of its balance sheet. Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data showed that higher interest rates were working in the UK, US, and Eurozone.

Following the December MPC meeting, Arlingclose, the authority's treasury adviser, maintained its central view that 5.25% is the peak in Bank Rate. Short term risks are broadly balanced, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

The lagged effect of monetary policy together with the staggered fixed term mortgage maturities over the next 12-24 months means the full impact from Bank Rate rises are still yet to be felt by households. As such, while consumer confidence continued to improve over the period, it is likely this will reverse at some point and spending will struggle. Higher rates will also impact exposed businesses; according to S&P/CIPS survey data, the UK manufacturing and construction sectors contracted during the quarter. The services sector recovered, however, with the PMI rising strongly in December, possibly due to improving consumer confidence.

The US Federal Reserve held its key interest rate at 5.25-5.50% over the period. While policymakers continued to talk up the risks to inflation and therefore interest rates, this stance ebbed over the quarter culminating in a relatively dovish outcome from the December FOMC meeting.

The European Central Bank continues to resist market policy loosening expectations, but the Eurozone CPI rate has fallen sharply as GDP growth as markedly slowed, hitting 2.4% in November (although rising to 2.9% on energy-related base effects).

Financial markets: Financial market sentiment and bond yields remained volatile, but the latter rapidly trended downwards towards the end of 2023 on signs of sharply moderating inflation and economic growth.

Gilt yields fell towards the end of the period. The 10-year UK benchmark gilt yield rose from 4.57% to peak at 4.67% in October before dropping to 3.54% by the end of December 2023. The Sterling Overnight Rate (SONIA) averaged 5.19% over the period.

Credit review: Arlingclose maintained the advised maximum duration limit for all banks on its recommended counterparty list to 35 days over the period.

In October, Moody's revised the outlook on the UK's Aa3 sovereign rating to stable from negative. This led to similar rating actions on entities that include an element of government support in their own credit ratings, including banks and housing associations. Local authorities were, however, downgraded on expectations of lower government funding.

Following the issue of a Section 114 notice, in November Arlingclose advised against undertaking new lending to Nottingham City Council. After reducing its recommended duration on Warrington Borough Council to a maximum of 100 days in September, the local authority was subsequently suspended from the Arlingclose recommended list following a credit rating downgrade by Moody's to Baa1.

Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress, but no changes were made to recommended durations over the period.

Heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

Local Context

On 31st March 2023, the Authority had net investments of £15.3m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary	
	31.3.23 Actual £m
General Fund CFR	190.52
HRA CFR	65.26
Total CFR	**255.78**
External borrowing*	(177.53)
Internal (over) borrowing	**78.25**
Less: Item A	(2.53)
Less: Usable reserves	(46.96)
Less: Working capital	(44.08)
Net investments	**(15.32)**

* shows only loans to which the Authority is committed and excludes option refinancing

The treasury management position on 31st December 2023 and the change during over the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.23 Balance £m	Net Movement £m	31.12.23 Balance £m	31.12.23 Weighted Average Rate %	31.12.23 Weighted Average Maturity (years)
PWLB maturity Loans	21	(0)	21	4.80	24.9
PWLB fixed annuity loans	142	(6)	135	2.53	13
Local authority loans	15	7	22	3.32	0
Other loans	0	0	0		
Total borrowing	**178**	**0**	**178**		

Borrowing

CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

The Authority has not invested in assets primarily for financial return or that are not primarily related to the functions of the Authority. It has no plans to do so in future.

The Authority currently holds £4.3m in commercial investments that were purchased prior to the change in the CIPFA Prudential Code. Before undertaking further additional borrowing the Authority will review the options for exiting these investments.

Borrowing Strategy and Activity

As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

Interest rates have seen substantial rises over the last two years, although these rises began to plateau in the later months of 2023. Rates over the last 3 quarters were at the peak between June and October, since then they have fallen back to lows last seen in April 2023. Gilt yields have remained volatile, facing upward pressure following signs that UK growth had been more resilient and inflation stickier than expected. However, more recent signs of slowing inflation and the perception of an increasingly struggling economy have now begun to change this sentiment, resulting in falling gilt yields and, consequently, PWLB rates.

On 31st December, the PWLB certainty rates for maturity loans were 4.19% for 10-year loans, 4.90% for 20-year loans and 4.67% for 50-year loans. Their equivalents on 31st March 2023 were 4.33%, 4.70% and 4.41% respectively.

A new PWLB HRA borrowing rate which is 0.4% below the certainty rate was made available from 15th June 2023. This rate will now be available until June 2025. The discounted rate is to support local authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans, providing a window of opportunity for HRA-related borrowing during this time frame.

At 31st December 2023 the Authority held £178m of loans, a similar position to 31st March 2023, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31st December are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.23 Balance £m	**Net Movement £m**	**31.12.23 Balance £m**	**31.12.23 Weighted Average Rate %**	**31.12.23 Weighted Average Maturity (years)**
PWLB maturity Loans	21	(0)	21	4.80	24.9
PWLB fixed annuity loans	142	(6)	135	2.53	13
Local authority loans	15	7	22	3.32	0
Other loans	0	0	0		
Total borrowing	**178**	**0**	**178**		

The Authority's short-term borrowing cost has continued to increase with the rise in Bank Rate and short-dated market rates. The average rate on the Authority's short-term loans at 31st December 2023 of £22m was 4.98%, this compares with 4.67% on £15m loans 3 months ago.

The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing was maintained.

There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

The UK Infrastructure Bank is one alternative source of funding which offers funding at gilt yields + 0.40% (0.40% below the PWLB certainty rate) and the possibility of more flexible funding structures than the PWLB. Funding from UKIB is generally only available for certain types of projects that meet its criteria of green energy, transport, digital, water and waste. The minimum loan size is £5 million.

Loans restructuring: The continuing rise in gilt yields since early 2022 resulted in some of the Authority's PWLB loans being in or close to a discount position if repaid early. However, as the prepaid loans would need to be replaced by new loans at higher interest rates, this isn't a cost-effective option for the Authority

Treasury Management Investment Activity

CIPFA revised TM Code defines treasury management investments as those which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances which need to be invested until the cash is required for use in the course of business.

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £15.6 and £34 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.23 Balance £m	Movement £m	31.12.23 Balance £m	31.12.23 Income return %	31.3.23 Weighted Average Maturity days
Banks (fixed/notice account)	0	0.00	0		
Banks (Call account)	0.2	1.52	1.72	1.73	1
Money Market Funds	15.12	(1.08)	14.04	4.87	1
Total investments	**15.31**	**0.44**	**15.77**		

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

As demonstrated by the liability benchmark in this report, the Authority expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment income.

Bank Rate increased by 1% over the period, from 4.25% at the beginning of April to 5.25% by the end of December. Short term rates peaked at 5.6% for 3-month rates and 6.6% for 12-month rates during the period, although these rates subsequently began to reduce towards the end of the period. Money Market Rates also rose and were between 5.33% and 5.46% by the end of December.

Non-Treasury Investments

The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by DLUHC and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.

Whitefriars

The authority holds £73m of investments in the Whitefriars Development Unit Trust. This non-treasury investment has generated £6.2m of income for the Authority by the end of March 2023. The income profile continues to be impacted by the economic climate with rental payments not being received as originally budgeted, income has increased since the pandemic, but not back to pre-pandemic levels. Rent renewals are continuing to reduce the rental income as retail rates are falling nationally. We are working with our asset management team to update business plans and maximise the use of the property space at the shopping centre.

The Authority holds one investment that has been held for many years of £2.3m for commercial purposes.
This investment generates £250,000 of income for the Authority after taking account of direct costs, representing a rate of return of 10.8%. This compares significantly better than the return earned on treasury investments over the last 2 years and forms part of the budgeted income generated by all property rentals. However is only a small part of the overall property income for non investment purposes.

Consultations

In December DLUHC published two consultations: a “final " consultation on proposed changes to regulations and statutory guidance on MRP closing on 16th February and a “call for views" on capital measures to improve sector stability and efficiency closing on 31st January.

Draft regulations and draft statutory guidance are included in the MRP consultation. The proposals remain broadly the same as those in June 2022 – to limit the scope for authorities to (a) make no MRP on parts of the capital financing requirement (CFR) and (b) to use capital receipts in lieu of a revenue charge for MRP.

In its call for views on capital measures, the Government wishes to engage with councils to identify and develop options for the use of capital resources and borrowing to support and encourage ‘invest-to-save’ activity and to manage budget pressures without seeking exceptional financial support. Whilst the Government has identified some options including allowing authorities to capitalise general cost pressures and meet these with capital receipts, there is no commitment to take any of the options forward.

Compliance

The Chief Finance Officer reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority’s approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 5 below.

Table 5: Investment Limits

	Q1-Q3 Maximum	**31.12.23 Actual**	**2023/24 Limit**	**Complied? Yes/No**
Money Market Funds	34	15.76	50	Yes
Any single organisation, except the UK Government	0	0	10	Yes
Unsecured investments with building societies	0	0	5	Yes

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 6 below.

Table 6: Debt Limits

	Q1-Q3 Maximum	31.12.23 Actual	2023/24 Operational Boundary	2023/24 Authorised Limit	Complied? Yes/No
Borrowing	187.80	177.80	257.32	260.32	Yes
PFI and Finance Leases	0	0	0	0	Yes
Total debt	187.80	177.80	257.32	260.32	

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Treasury Management Indicators

Maturity Structure of Borrowing**:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	Maturity year	31.12.23 Actual balance £m	31.12.23 % repayments of a total debt	Upper Limit	Lower Limit	Complied?
Under 12 months	2024-25 - £22m	22.0	18%	50%	0%	Yes
12 to 24 months		0.0	6%	25%	0%	Yes
2 to 5 years	2027-28 - £1.2m	1.2	19%	25%	0%	Yes
5 to 10 years	2030-31 - £54.2m	54.2	22%	25%	0%	Yes
10 years and above	2036-37 - £3.5m 2040-41 - £2.8m 2041-42 - £62.4m	86.4	26%	50%	5%	Yes

	2042-43 - £17.2m 2043-44 - £0.5m					
20 years and above	2046-47 - £2m 2051-52 - £2m 2052-53 - £6.25m 2056-57 - £1.5m 2057-58 - £1.25m 2058-59 - £1m	14.0	8%	50%	5%	Yes
		177.8				

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Additional indicators

Security**:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.12.2023 Actual	**2023/24 Target**	**Complied?**
Portfolio average credit rating	A+	A	Yes

Liquidity**:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing

	31.12.2023 Actual	**2023/24 Target**	**Complied?**
Total cash available within 3 months	15.76	5	Yes

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. Bank Rate rose by 1.25% from 4.25% on 1st April to 5.25% by 31st December.

Interest rate risk indicator	31.12.2023	2023/24 Limit	Complied ?
Upper limit on one-year revenue impact of a 1% rise in interest rates	£151,479	£385,000	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	£39,000	£39,000	Yes

For context, the changes in interest rates during the quarter were:

	31/3/23	31/12/23
Bank Rate	4.25%	5.25%
1-year PWLB certainty rate, maturity loans	4.78%	5.13%
5-year PWLB certainty rate, maturity loans	4.31%	4.19%
10-year PWLB certainty rate, maturity loans	4.33%	5.37%
20-year PWLB certainty rate, maturity loans	4.70%	4.90%
50-year PWLB certainty rate, maturity loans	4.41%	4.67%

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at new market rates.

Audit Committee - 13 March 2024

Subject:	RIPA Annual Report
Head of Service:	Jan Guyler, Head of Legal Services & Monitoring Officer
Cabinet Member:	Mike Sole
Key or non key decision:	Non Key Please note: A key decision involves expenditure or savings over £250k or £1m in the case of a property transaction or will significantly have an impact on two or more wards.
Decision issues:	These matters are within the authority of the Council.
Is any of the information exempt from publication:	- This report is open to the public.
CCC ward(s):	All
Summary:	This report and accompanying draft updated RIPA Policy set out the Council's position with regard to directed surveillance sources under the Regulation of Investigatory Powers Act 2000.
To Recommend/Note:	**a) To adopt the attached updated RIPA Policy document** **b) To receive and note the annual report**
Next stage in process:	Full Council on 25 April 2024 to receive and note the annual report and to consider adopting the attached updated RIPA Policy document.

SUPPORTING INFORMATION

1. Introduction

1.1 Part II of the Regulation of Investigatory Powers Act 2000 (RIPA) puts covert surveillance on a statutory basis enabling public authorities identified in the legislation to carry out surveillance operations without breaching the Human Rights Act 1998.

1.2 A number of statutory instruments and codes of practice published by the

Home Office govern the operation of RIPA with the codes of practice for both the use of Surveillance and Covert Human Intelligence Sources most recently revised and republished in 2022.

1.3 Organisations using RIPA are subject to regular inspection by the

Investigatory Powers Commissioner's Office. An inspection took place in March 2021 which recommended that Canterbury City Council update its' Policy, provide updating training for staff and take account of provisions in relation to social media. These recommendations were complied with by a new policy prepared and approved by the Audit Committee on 27th July 2021 and subsequently by full Council. Training was provided in 2021 for those undertaking a role as a Senior Authorising Officer, Authorising Officers, Senior Responsible Officer and RIPA Monitoring Officer, as identified in the policy at the time.

1.4 Awareness training was also provided to a wider group of officers in May and

September 2022.

1.5 In response to the discussions that took place during this training the RIPA

Monitoring Officer has set up regular "RIPA Surgeries" to provide colleagues with the opportunity to seek advice on any current matters that may or may not be RIPA cases. The RIPA Monitoring Officer also meets regularly with team managers/Heads of Service to discuss potential RIPA matters, ensure communications take place to share awareness of RIPA and assess whether further training is required, etc. A reminder of RIPA and the need to be alive to potential cases and seek authorisation was provided by the RIPA Monitoring Officer at a Manager's Conference on 27 September 2023. A report will be submitted to Management Team by the end of the municipal year to seek approval for refresher training for Authorising Officers, awareness training for a wider group of officers likely to deal with RIPA applications and potential e-learning training for all officers to undertake to ensure awareness across the organisation.

1.6 An annual review of the RIPA policy took place in 2022, with the annual

report and updated Policy presented to the Audit Committee on 28

September 2022 and the policy adopted by full council on 13 October 2022.

2. A Brief Overview of RIPA

2.1 The Act enables senior officers within public authorities to authorise Directed

Surveillance and the use of Cover Human Intelligence Sources (CHIS). These authorisations can however only take effect once approved by a Magistrate.

2.2 The following sections give a brief overview of the types of surveillance:

a) Directed Surveillance - is surveillance that is covert but not intrusive. Directed Surveillance must relate to a specific investigation or operation and is surveillance that is likely to result in obtaining private information about someone, including the target of the investigation or operation. Private information includes any aspect of a person's private or personal relationships with others, including family and professional/business relationships. Directed Surveillance is usually planned surveillance.

b) Covert Human Intelligence Sources (CHIS) - is defined by RIPA as a person (source) who establishes and / or maintains a personal or other relationship with a person for the purpose of: covertly using the relationship to obtain information or to provide another person with access to information or, covertly disclosing information obtained through the relationship. It is intended that the target is unaware of the investigation or the purpose of the relationship between the course and the target.

2.3 The Council can only grant an authorisation under RIPA for the use of directed surveillance where the local authority is investigating particular types of criminal offences. These are criminal offences which attract a custodial sentence of six months or more.

2.4 The council may only authorise directed surveillance where it is both necessary and proportionate to the investigation or operation being undertaken and to what is being sought to achieve in terms of evidence gathering. The Authorising Officers have a key role in carefully scrutinising all applications for the use of RIPA powers under a specific authorisation. Authorising Officers must ensure that authorisations are granted only in appropriate cases and that the extent of all authorisations are clearly set out.

2.5 No applications have been made since 2015.

3. **Update to RIPA Policy and Annual Report**

3.1 The guidance provides that elected members of a local authority should review the authority's use of the 2000 Act and set the policy at least once a year. They should also consider internal reports on the use of the 2000 Act on at least a quarterly basis to ensure that it is being used consistently with the local authority's policy and that the policy remains fit for purpose. They should not, however, be involved in making decisions on specific authorisations.

3.2 This report serves as an Annual Report and updates members on the following:

3.2.1 The RIPA Policy has been reviewed and required only minor amendments to update the court's telephone number and email address in order to seek Magistrates authorisation, to state that the council now has a Non-RIPA policy (previously the policy referred to this Non-RIPA policy being developed) and to check the links to the Home Office website containing the relevant Codes of Practice were still effective.

3.2.2 No quarterly reports have been provided as there have been no internal reports to review.

4. Consultation planned or undertaken

Consultation is not applicable.

5. Options available with reasons for suitability

Option 1
As provided at page 1.

This option enables the policy to be updated and to note the annual report. This is the recommended option to ensure the policy continues to develop.

Option 2
To amend the recommendations or partially adopt them.

Option 3
Not to adopt the changes.

6. Reasons for supporting option recommended, with risk assessment

RIPA continues to develop by way of case law and government guidelines so the council policy needs to be checked and reviewed regularly to ensure it meets the legal requirements. There are also inevitably leavers and joiners at the Council and it is necessary to reflect these changes and ensure the appropriate staff can authorise the RIPA applications and they have undergone relevant training.

7. Implications

(a) Financial

No financial implications are identified save for training costs which will be an

operational decision by Management Team. By keeping the policy and training up to date the council is protected from potential costs by way of damages if it fails to adhere to the legislation.

(b) Legal

The regular review and update of the policy assists the Council in ensuring officers keep up to date with legislation and government guidance regarding RIPA.

(c) Equalities

There are no equalities issues.

(d) Environmental including carbon emissions and biodiversity

There are no environmental issues.

(e) Human rights issues

The review of the RIPA policy ensures that the human rights of local residents in relation to any proposed surveillance is carefully assessed in accordance with the legislation and government guidelines.

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9. Background documents and appendices

Updated RIPA policy.

There are no exempt documents regarding this matter.

Appendices

None

Regulation of Investigatory Powers Act 2000 (RIPA)

RIPA Policy and Procedures

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Contents

1. Introduction

This Policy is the framework on which the Council applies the provisions of the Regulation of Investigatory Powers Act 2000 (RIPA) as it relates to covert surveillance. Certain covert powers under RIPA and the Investigatory Powers Act 2016 (IPA) are available to local authorities and can be used in appropriate circumstances in accordance with the requirements of the legislation to support the delivery of their functions. The Investigatory Powers Commissioner's Office (IPCO) oversees the use of covert powers under RIPA by local authorities.

This Policy must be read in conjunction with the Home Office Codes of Practice on Covert Surveillance and Property Interference and Covert Human Intelligence Sources. Covert surveillance should be used only rarely and in exceptional circumstances. Copies of the Home Office Codes of Practice are available on their website.
https://www.gov.uk/government/collections/ripa-codes
The Home Office website should be consulted regularly from time to time to ensure that the correct versions of the Codes of Practice are being used.

RIPA and this Policy are important for the effective and efficient operation of the Council's actions with regard to covert surveillance and Covert Human Intelligence Sources. The RIPA Monitoring Officer will therefore keep this Policy under annual review.

The RIPA Monitoring Officer is responsible for keeping the RIPA forms up to date and for checking the Home Office website and Codes of Practice. The RIPA Monitoring Officer will also be responsible for submitting a report on a three monthly basis (or as necessary) to the Audit Committee on the Council's use of RIPA if the Council has used RIPA during the previous three months. The RIPA Monitoring Officer is also responsible for submitting an annual report to the Audit Committee on this Policy and, if relevant, the Council's use of RIPA.

Authorising Officers must bring any suggestions for continuous improvement of this Policy to the attention of the RIPA Monitoring Officer at the earliest possible opportunity. If any of the Home Office Codes of Practice change, this Policy will be amended accordingly.

2. Policy Statement

The Council takes seriously its statutory responsibilities and will, at all times, act in accordance with the law and take necessary and proportionate action in these types of matters. In that regard, the Management Team is duly authorised by the Council to keep this Policy up to date and to amend, delete, add or substitute relevant provisions as necessary. The Audit Committee has a standing item on the use of RIPA but in any event will, if the Council has used RIPA, receive the RIPA Monitoring Officer's report every three months. The report will set out the surveillance carried out (though without revealing details of

specific operations) and, if appropriate, reporting alterations to this Policy. An annual report will be submitted to the Audit Committee on this Policy setting out any alterations since the last report.

It is the policy of the Council that where RIPA applies (see below) surveillance should only be carried out in accordance with this Policy. This Policy covers the use of directed surveillance, intrusive surveillance and the deployment of Covert Human Intelligence

Sources by the Council. These types of surveillance are set out in greater detail in paragraph 7 (Types of Surveillance) below.

Where RIPA does not apply, surveillance may properly be carried out provided that the appropriate rules and procedures are followed. For example, surveillance connected with an employment issue will have to be carried out in accordance with the Data Protection Act 2018 and the various HR policies. The Council also has a Non-RIPA Authorisation Policy which Officers must follow for surveillance which falls outside of RIPA. Advice on non–RIPA surveillance should be sought from legal services or HR as appropriate.

Roles and Responsibilities of Directors, Heads of Service, Service Managers, Senior Authorising Officers, Authorising Officers, Senior Responsible Officer and the RIPA Monitoring Officer

This section sets out the various roles and responsibilities in relation to the use of RIPA.

It is essential that Directors, Heads of Service, Service Managers and all Authorising Officers take personal responsibility for the effective and efficient operation of this Policy and the implementation of RIPA in their departments.

Roles

<u>Authorising Officer</u>

An Authorising Officer is a person who considers whether or not to grant an application to use directed surveillance. He/she must believe the activities to be authorised are necessary for the purposes of preventing or detecting crime and that they are proportionate to what is sought to be achieved by carrying them out. The authorisation is then subject to judicial approval.

An Authorising Officer may not, except in case of urgency, consider an application to use directed surveillance if the Applying Officer is an Officer in his/her service area or the Authorising Officer has direct involvement with the operation.

<u>Senior Authorising Officer</u>

A Senior Authorising Officer is a person responsible for considering whether or not to grant an authorisation where confidential information is likely to be obtained or for use of a CHIS.

<u>Senior Responsible Officer</u>

The Senior Responsible Officer has overall responsibility for the use and operation of RIPA within the Council, and oversees the competence of Authorising Officers and the processes in use in the Council. The Senior Responsible Officer is not an Authorising

Officer as it would be inappropriate to oversee his / her own authorisations. The Senior Responsible Officer should be a member of the Council's Management Team.

Specifically the Senior Responsible Officer will be responsible for:

- The integrity of the processes in place within the Council for the management of CHIS and directed surveillance;
- Compliance with the statutory provisions and Codes of Practice;
- Training or arranging training for Authorising Officers, together with the RIPA Monitoring Officer;
- Ensuring Officers generally understand provisions relating to covert surveillance and Covert Human Intelligence Sources;
- Engagement with the IPCO inspectors when they conduct their inspections;
- Overseeing the implementation of any post-inspection action plans approved by the relevant oversight Commissioner;
- Ensuring that all Authorising Officers are of an appropriate standard in light of any recommendations in IPCO inspection reports; and
- Addressing any concerns raised within an IPCO inspection report.

RIPA Monitoring Officer

The RIPA Monitoring Officer has:

- The duty to maintain the list of Authorising Officers;
- The power to suspend from the list of Authorising Officers any Authorising Officer who does not follow the procedure or who does not attend training sessions; and
- The power to cancel any authorisation that is manifestly wrong.

Responsibilities

Directors and Heads of Service are responsible for ensuring their relevant members of staff are suitably trained as 'Applying Officers' so as to avoid common mistakes appearing on forms for RIPA authorisations.

Directors and Heads of Service will also ensure that staff who report to them follow this Policy and do not undertake or carry out any form of surveillance governed by RIPA without first obtaining the relevant authorisations in compliance with this Policy. Wilful failure to follow this Policy will constitute gross misconduct under the Council's HR policies.

Directors, Heads of Service, Service Managers, Senior Authorising Officers and Authorising

Officers must also pay particular attention to health and safety issues that may be raised by any proposed surveillance activity. Under no circumstances should Directors or Heads of Service permit an application to be made unless, and until, s/he is satisfied that the health and safety of Council employees/agents is suitably addressed and/or risks minimised, so far as is possible, and proportionate to/with the surveillance being proposed. It is the responsibility of the Applying Officer (i.e. the person who applies to the Authorising Officer to use the Council's RIPA powers) to carry out any risk assessment and complete a written risk assessment if necessary. **If a Head of Service is in any doubt s/he should obtain prior guidance on the same from a Corporate Director, the Council's Health & Safety Officer or the RIPA Monitoring Officer.**

Authorising Officers must acquaint themselves with the relevant Codes of Practice issued by the Home Office regarding RIPA. Any failure to comply exposes the Council to unnecessary legal risks and criticism from the IPCO. All stages of the process (application, review, renewal and cancellation) must be promptly dealt with.

Coming across **any confidential information** during surveillance must be given prior thought before any applications are made or authorised, as failure to do so may invalidate the admissibility of any evidence obtained. Furthermore, thought must be given before any forms are signed to the retention and disposal of any material obtained under a RIPA
authorisation. Where confidential information is likely to be obtained through covert surveillance, the application **must** be authorised by a Senior Authorising Officer.

Any Authorising Officer must ensure proper regard has been given to **necessity and proportionality** before any applications are authorised. 'Stock phrases' or cut and paste narrative must be avoided at all times as the use of the same may suggest that insufficient detail had been given to the particular circumstances of any person likely to be the subject of the surveillance. Any equipment to be used in any approved surveillance must also be properly controlled, recorded and maintained for audit purposes.

Authorising Officers must ensure that reviews are conducted in a timely manner and that cancellations and renewals are effected before the authorisation ceases to have effect. Best practice for Directed Surveillance is that a review should be carried out no more than 4 weeks after the grant of authorisation.

The RIPA Monitoring Officer shall have responsibility for maintaining, updating and enforcing this Policy. S/he, in conjunction with the Senior Responsible Officer, shall also be responsible for the provision of adequate training to Authorising Officers and Applying Officers and for ensuring that no authorisations shall be granted unless the Authorising Officer has received such training.

The RIPA Monitoring Officer shall also ensure that adequate records are maintained in accordance with the relevant and current Codes of Practice and also to check that reviews are conducted in a timely manner and that all cancellations and renewals are effected before the authorisation ceases to have effect.The RIPA Monitoring Officer's contact details are set out in Appendix 1 of this Policy.

4. RIPA – General Information

The Human Rights Act 1998 (which brought much of the European Convention on Human Rights and Fundamental Freedoms 1950 into UK domestic law) requires the Council, and organisations working on its behalf, pursuant to Article 8 of the European Convention, to respect the private and family life of citizens, his/her home and his/her correspondence.

The European Convention did not, however, make this an absolute right, but a qualified right. Accordingly, in certain circumstances, the Council may interfere in the citizen's right mentioned above, if such interference is:

(a) **In accordance with the law;**
(b) **Necessary** (see below); and
(c) **Proportionate** (see below).

RIPA provides a statutory mechanism (i.e. in accordance with the law) for authorising covert surveillance and the use of a **'Covert Human Intelligence Source' (CHIS)** e.g. undercover agents. It now also permits public authorities to compel telecommunications and postal companies to obtain and release communications data to themselves in certain circumstances. It works to ensure that **any** interference with an individual's right under Article 8 of the European Convention **is necessary and proportionate**. In doing so, RIPA seeks to ensure both the public interest and the human rights of individuals are suitably balanced.

Directly employed Council staff and external agencies working for the Council are covered
by RIPA while they are working for the Council. All external agencies must therefore comply with RIPA and the work carried out by agencies on the Council's behalf **must be** properly authorised by one of the **Council's Authorising Officers**. **It is the responsibility of the contracts manager to ensure that external agencies comply with this Policy**. Authorising Officers are listed in **Appendix 1** to this Policy.

If the correct procedures are not followed, the courts may disallow evidence; a complaint of maladministration could be made to the Ombudsman; the Council could be the subject of an adverse report made by the IPCO; and the Human Rights Act 1998 provides a cause of action for damages and/or an injunction against the Council should it be proven that the Council's actions amount to an unwarranted interference with human rights. Such action would not, of course, promote the good reputation of the Council and will, undoubtedly, be the subject of adverse press and media interest. In addition wilful failure to follow this Policy could constitute gross misconduct under the Council's HR policies. It is essential, therefore, that all involved with RIPA comply with this Policy and any further guidance that may be issued.

Flowcharts of the procedures to be followed appear at **Appendix 2** for Directed Surveillance and for CHIS.

5. When is RIPA authorisation available?

RIPA authorisation is only appropriate for surveillance which relates to the "core functions" of the Council and is for the purpose of preventing or detecting crime.

The core functions of the Council are defined as its "specific public functions" as opposed to its "ordinary functions". The ordinary functions are those functions which any public authority carries out e.g. employment of staff or entering into contractual agreements.

Surveillance, whether overt or covert, related to ordinary functions is not governed by RIPA and RIPA does not prohibit such activity. The Council has adopted a policy covering the authorisation of surveillance which is not covered by RIPA. The policy can be found here. Advice on such surveillance should be sought from Legal Services and HR as appropriate.

Authorisations for both directed surveillance and CHIS are also subject to judicial approval, meaning that the Council must obtain the approval of the Magistrates' Court for any grant or renewal of a RIPA authorisation. The Magistrates' Court will only approve an authorisation where satisfied that the statutory tests have been met, and that the use of the technique is necessary and proportionate. Surveillance cannot commence until this approval has been obtained (see paragraph 10 below for further detail).

Through the application of authorisation procedures and Magistrates' Court approval, RIPA ensures that a balance is maintained between the public interest and the human rights of individuals.

6. What RIPA does and does not do:

RIPA does:

- require prior authorisation of directed surveillance;
- prohibit the Council from carrying out intrusive surveillance;
- compel disclosure of communications data from telecom and postal service providers;
- require authorisation of the conduct and use of a CHIS;
- require safeguards for the conduct and use of a CHIS; and
- permit the Council to obtain communications records from communications service providers.

RIPA does not

- make anything unlawful which is otherwise lawful; or
- prejudice or dis-apply any existing powers available to the Council to obtain
- information by any means not involving conduct that may be authorised under the Act. For example, it does not affect the Council's current powers to obtain

information via the DVLA or to get information from the Land Registry as to the ownership of a property.

If the Authorising Officer or any Applying Officer is in any doubt, s/he should ask the RIPA Monitoring Officer BEFORE any directed surveillance and/or CHIS is authorised, renewed, cancelled or rejected.

7. Types of Surveillance

'Surveillance' includes:

- Monitoring, observing, listening to persons, watching or following their movements, listening to their conversations and other such activities or communications.
- Recording anything mentioned above in the course of authorised surveillance.
- Surveillance, by or with, the assistance of appropriate surveillance device(s).

Surveillance can be <u>overt</u> or <u>covert</u>.

Overt Surveillance

Most of the surveillance carried out by the Council will be done overtly; there will be nothing secretive, clandestine or hidden about it. In many cases, officers will be behaving in the same way as a normal member of the public (e.g. in the case of most test purchases), and/or will be going about Council business openly (e.g. a market inspector walking through markets).

Similarly, surveillance will be overt if the subject has been told it will happen, for example where a noisemaker is warned, (preferably in writing) that noise will be recorded if the noise continues or where an entertainment licence is issued subject to conditions and the licensee is told that officers may visit without notice or identifying themselves to the owner/proprietor to check that the conditions are being met.

Covert Surveillance

Covert surveillance is carried out in a manner calculated to ensure that the person subject to the surveillance is unaware of it taking place (section 26(9) (a) of RIPA). Generally covert surveillance cannot be used if there is reasonably available an overt means of finding out the information desired. However if those overt means might seriously undermine the conduct of any investigation or put innocent persons at risk then covert surveillance can be used.

RIPA regulates **two types of covert surveillance, (directed surveillance and intrusive surveillance)** and the use of **Covert Human Intelligence Sources (CHIS)).**

Directed Surveillance

Directed surveillance is surveillance which:

- is covert, but not intrusive surveillance;
- is conducted for the purposes of a specific investigation or operation;

- is likely to result in the obtaining of private information about a person (whether or not one specifically identified for the purposes of the investigation or operation);
- is conducted otherwise than by way of an immediate response to events or circumstances the nature of which is such that it would not be reasonably practicable to seek authorisation under the Act

Intrusive Surveillance

Intrusive surveillance is surveillance which:

- Is covert;
- Relates to residential premises and/or private vehicles; and
- Involves the presence of a person in the premises or in the vehicle or is carried out by a surveillance device in the premises/vehicle. Surveillance equipment mounted outside the premises will not be intrusive, unless the device consistently provides information of the same quality and detail as might be expected if they were in the premises/vehicle.

“Residential premises” means any premises occupied or used, however temporarily, for residential purposes or otherwise as living accommodation. This includes a hotel room or prison accommodation that is occupied or used for residential purposes, but does not include common areas that a person has access to in common with others and in connection with their use of accommodation.

The 2010 Legal Consultations Order also provides that any directed surveillance that is carried out on premises ordinarily used for legal consultations, at a time when they are being so used, is to be treated as intrusive surveillance.

<u>**Intrusive Surveillance cannot be authorised under RIPA for the Council. Only the police and other law enforcement agencies can use RIPA to authorise intrusive surveillance. Likewise, the Council has no statutory powers to interfere with private property.**</u>

Covert Human Intelligence Source

A Covert Human Intelligence Source (“CHIS”) is someone who establishes or maintains a personal or other relationship for the covert purpose of using the relationship to obtain or
disclose information (see below).

Private Information in relation to a person includes any information relating to his/her private or family life.

Private information is generally taken to include any aspect of a person's private or personal relationship with others including family and professional or business relationships. The fact that covert surveillance occurs in a public place or on business premises does not mean that it cannot result in the obtaining of private information about a person. Prolonged surveillance targeted on a single person will undoubtedly result in the obtaining of private information about him/her and others that s/he comes into contact or associates with.

To take an example: although overt town centre CCTV cameras do not normally require authorisation, if the camera(s) are to be directed for a specific purpose to observe particular individual(s), authorisation will be required. The way a person runs his/her business may also reveal information about his or her private life and the private lives of others.

Social media

Social media can provide useful information as part of an investigation. However, Council Officers must consider if a RIPA authorisation is required if they are accessing social media for this purpose before undertaking any monitoring of a site.

Whilst initial research of social media to establish a fact or collate an intelligence picture is unlikely to require an authorisation for directed surveillance, repeat viewing of 'open source' sites may constitute directed surveillance on a case by case basis. This should be borne in mind e.g. if someone is being monitored through, for example, their Facebook profile for a period of time and a record of the information is kept for later analysis, this is likely to require a RIPA authorisation for directed surveillance. The key consideration is whether there is a **repeated and systematic collection of personal information.**

Where it is intended to access a social media or other online account to which the Council has been given access with the consent of the owner, the Council will still need to consider whether the account(s) may contain information about others who have not given their consent. If there is a likelihood of obtaining private information about others, the need for a directed surveillance authorisation should be considered, particularly (though not exclusively) where it is intended to monitor the account going forward.

In addition, Council Officers must be aware that the fact that digital investigation is routine or easy to conduct does not reduce the need for authorisation. Care must be taken to understand how the social networking site being used works. Authorising Officers must not assume that one service provider is the same as another or that the services provided by a single provider are the same. Whilst it is the responsibility of an individual to set privacy settings to protect against unsolicited access to private information, and even though data may be deemed published and no longer under the control of the author, it is unwise to regard it as 'open source' or publicly available.

The author has a reasonable expectation of privacy if access controls are applied. In some cases, data may be deemed private communication still in transmission (instant messages for example). Where privacy settings are available but not applied the data may be considered ‘open source’ and an authorisation is not usually required.

If it is necessary and proportionate for the Council to covertly breach access controls, an authorisation for directed surveillance is required. An authorisation for the use and conduct of a CHIS is necessary if a relationship is established or maintained by a Council Officer or by a person acting on the Council’s behalf (i.e. the activity is more than mere reading of the site’s content). It is not unlawful for a Council Officer to set up a false persona, but this must not be done for a covert purpose without authorisation. Using photographs of other persons without their permission to support the false identity infringes other laws and such photographs must not be used.

In order to determine whether an authorisation should be sought for accessing information on a website as part of a covert investigation or operation, it is necessary to look at the intended purpose and scope of the online activity it is proposed to undertake. Factors that should be considered in establishing whether a directed surveillance authorisation is required include:

- Whether the investigation or research is directed towards an individual or organisation;
- Whether it is likely to result in obtaining private information about a person or group of people;
- Whether it is likely to involve visiting internet sites to build up an intelligence picture or profile;
- Whether the information obtained will be recorded and retained;
- Whether the information is likely to provide an observer with a pattern of lifestyle;
- Whether the information is being combined with other sources of information or intelligence, which amounts to information relating to a person’s private life;
- Whether the investigation or research is part of an ongoing piece of work involving repeated viewing of the subject(s);
- Whether it is likely to involve identifying and recording information about third parties, such as friends and family members of the subject of interest, or information posted by third parties, that may include private information and therefore constitute collateral intrusion into the privacy of these third parties.

To avoid the potential for inadvertent or inappropriate use of social network sites in investigative and enforcement roles, Council Officers should be mindful of the following:

- do not create a false identity in order to ‘befriend’ individuals on social networks without authorisation under RIPA;
- when viewing an individual’s public profile on a social network, do so only to the minimum degree that is necessary and proportionate in order to obtain evidence to support or refute an investigation;
- repeated viewing of open profiles on social networks to gather evidence or to monitor an individual’s status must only take place under a RIPA authorisation;
- be aware that it may not be possible to verify the accuracy of information on social networks and if such information is to be used as evidence, take reasonable steps to ensure its validity.

For the avoidance of doubt, only those Officers designated and certified to be Authorising Officers for the purpose of RIPA can authorise directed surveillance IF, AND ONLY IF, the RIPA authorisation procedures detailed in this Policy are followed. Authorisation for directed surveillance can only be granted if it is for the purpose of preventing or detecting crime and the criminal offence is punishable by at least six months' imprisonment or it is an offence under sections 146, 147, 147A of the Licensing Act 2003 or section 7 of the Children and Young Persons Act 1933 (sale of alcohol and tobacco to underage children).

The Home Office Codes of Practice on covert surveillance and CHIS contain essential guidance in relation to online covert activity and must be consulted. https://www.gov.uk/government/collections/ripa-codes

If you are in doubt as to whether or not you can use directed surveillance for the crime you are investigating, you should contact Legal Services for advice to ensure that no unauthorised online covert activity takes place within the Council.

Proportionality

The authorised conduct will not be proportionate if it is excessive in the overall circumstances of the case. Each authorised action should bring an expected benefit to the investigation or operation and should not be disproportionate or arbitrary. No activity should be considered proportionate if the information which is sought could reasonably be obtained by other less intrusive means.

The following elements of proportionality should therefore be considered:

- balancing the size and scope of the proposed activity against the gravity and extent of the perceived crime or offence;
- explaining how and why the methods to be adopted will cause the least possible intrusion on the subject and others;
- considering whether the activity is an appropriate use of the legislation and a reasonable way, having considered all reasonable alternatives, of obtaining the necessary result;
- evidencing, as far as reasonably practicable, what other methods had been considered and why they were not implemented.

In other words, this means balancing the intrusiveness of the activity on the target subject and others who might be affected by it against the need for the activity in operational terms. The activity will not be proportionate if it is excessive in the circumstances - each case will be unique and will be judged on its merits - or if the information that is sought could reasonably be obtained by other less intrusive means. **All such activity must be carefully managed to meet the objective in question and must not be arbitrary or unfair.** Extra care should also be taken over any publication of the product of the surveillance.

Put very simply, it means not using a sledgehammer to crack a nut.

As well as being proportionate, the covert surveillance must be necessary in all the circumstances.

Examples of different types of Surveillance

Type of Surveillance	Examples
Overt	- Police Officer or Environmental Enforcement Officer on patrol - Signposted town centre CCTV cameras (in normal use) - Recording noise coming from outside the premises after the occupier has been warned that this will occur if the noise persists. - Most test purchases (where the officer behaves no differently from a normal member of the public).
Covert but not requiring prior authorisation	- CCTV cameras providing general traffic, crime or public safety information.
Directed surveillance (must be RIPA authorised)	- Officers follow an individual or individuals over a period, to establish whether s/he is working when claiming benefit or off long term sick from employment. - Test purchases where the officer has a hidden camera or other recording device to record information which might include information about the private life of a shop-owner, e.g. where s/he is suspected of running his business in an unlawful manner.
Intrusive surveillance or interfering with private property – **Note: The Council cannot use RIPA to authorise this**	- Planting a listening or other electronic device (bug) or camera in a person's home or in/on their private vehicle/person.

Further Information

Further guidance on surveillance which can be found in the Home Office Codes of Practice is set out in Appendix 5.

Confidential Information

Special safeguards apply with regard to confidential information relating to:

- confidential personal information;
- confidential constituent information; and
- confidential journalistic material.

The Authorising Officer for directed surveillance where confidential information is likely to be obtained or for the use of a CHIS must be a Senior Authorising Officer. Further guidance is available in the Home Office Codes of Practice.

Legal Privilege

Surveillance that is intended to result in knowledge of matters subject to legal privilege CANNOT be authorised. Where surveillance is not intended to result in knowledge of matters subject to legal privilege, but acquisition of such matters is likely, then the Authorising Officer must consider carefully whether such surveillance is appropriate. In particular, such surveillance can only be authorised to prevent or detect serious crime. The Authorising Officer in these circumstances must be a Senior Authorising Officer. Further guidance is available in the Home Office Codes of Practice.

Collateral Intrusion

Before authorising surveillance the Authorising Officer should also take into account the risk of intrusion into the privacy of persons other than those who are directly the subjects of the investigation or operation (collateral intrusion). Measures should be taken, wherever practicable, to avoid or minimise unnecessary intrusion into the lives of those not directly connected with the investigation or operation.

Those carrying out the surveillance should inform the Authorising Officer if the investigation or operation unexpectedly interferes with the privacy of individuals who are not covered by the authorisation. When the original authorisation may not be sufficient, consideration should be given to whether the authorisation needs to be amended and re-authorised or a new authorisation is required.

Further guidance is available in the Home Office Codes of Practice.

Retention and Destruction of Products of Surveillance

Where the product of surveillance could be relevant to pending or future criminal or civil proceedings, it should be retained in accordance with established disclosure requirements for a suitable period and subject to review. Authorising Officers must make sure that they have regard to the latest Code of Practice made under S23 Criminal Procedure and
Investigations Act 1996

[Criminal Procedure and Investigations Act 1996 (section 23(1)) Code of Practice]

There is nothing in RIPA that prevents material obtained from properly authorised surveillance from being used in other investigations. Authorising Officers must ensure, therefore, that arrangements are in place for the handling, storage and destruction of material obtained through the use of covert surveillance. Authorising Officers must also ensure compliance with the appropriate data protection requirements and any relevant codes of practice produced by individual authorities relating to the handling and storage of material.

8. Conduct and Use of a Covert Human Intelligence Source (CHIS)

Who is a CHIS?

A CHIS is someone who establishes or maintains a personal or other relationship for the covert purpose of using the relationship to obtain information.

Members of the public who volunteer information to the Council and those engaged by the Council to carry out test purchases in the ordinary course of business (i.e. they do not develop a relationship with the shop attendant and do not use covert recording devices) are not CHIS and do not require RIPA authorisation.

However, there may be instances where an individual covertly discloses information obtained by the use of such a relationship, or as a consequence of the existence of such a relationship. In such circumstances where a member of the public, though not asked to do so, gives information (or repeated information) about a suspect, then serious consideration should be given to designating the individual as a CHIS, particularly if the Council intends to act upon the information received.

It is possible therefore that a person could become engaged in the conduct of a CHIS without the Council inducing, asking or assisting the person to engage in that conduct (i.e. "Tasking" – see Appendix 3 for further detail on the use and management of CHIS). As stated in paragraph 2.25 the Home Office CHIS Code of Practice the 'tasking' of a person should not be used as the sole benchmark in seeking a CHIS authorisation, and it is possible that a person will become engaged in the conduct of a CHIS without a local authority inducing, asking or assisting the person to engage in this conduct. it is recommended that legal advice is sought in any such circumstances.

What must be authorised?

The conduct or use of a CHIS requires **prior authorisation**:

- **Conduct of a CHIS** = Establishing or maintaining a personal or other relationship with a person for the covert purpose of (or is incidental to) obtaining and passing on information.

- **Use of a CHIS** = Actions inducing, asking or assisting a person to act as a CHIS and the decision to use a CHIS in the first place.

Most CHIS authorisations will be for both use and conduct. This is because public authorities usually take action in connection with the CHIS, such as tasking the CHIS to undertake covert action, and because the CHIS will be expected to take action in relation to the public authority, such as responding to particular tasking.

Authorisations are also subject to judicial approval and cannot commence until this has been
obtained.

Detailed records must be kept relating to each source.

The Council can only authorise CHIS under RIPA IF, AND ONLY IF, the procedures, as detailed in this Policy, are followed. Authorisation for CHIS can only be granted if it is for the purpose of preventing or detecting crime.

Juveniles and Vulnerable Individuals

Special safeguards apply to the use or conduct of juvenile sources (i.e. those under 18 years old). On no occasion can a child under 16 years of age be authorised to give information against his or her parents.

A vulnerable individual is a person who is or may be in need of community care services by reason of mental or other disability, age or illness and who is or may be unable to take care of himself or herself, or unable to protect himself or herself against significant harm or exploitation.

Vulnerable individuals and juveniles will only be authorised to act as a CHIS in very exceptional circumstances and a Senior Authorising Officer MUST give the authorisation for their use.

Test Purchases

Carrying out test purchases will not usually (as highlighted above) require the purchaser to establish a relationship with the supplier with the covert purpose of obtaining information and, therefore, the purchaser will not normally be a CHIS. However, **using mobile hidden recording devices or CCTV cameras to record what is going on in the shop will require authorisation as directed surveillance**. A combined authorisation can be given for a CHIS and also directed surveillance.

Anti-Social Behaviour Activities (e.g. noise, violence, race abuse, etc.)

Persons who complain about anti-social behaviour, and are asked to keep a diary will
not

normally be a **CHIS**, as they are not required to establish or maintain a relationship for a covert purpose. Recording the level of noise (e.g. the decibel level) will not normally capture private information and, therefore, does **not** require authorisation.

Recording sound (with a DAT recorder) on private premises could constitute **intrusive surveillance,** unless it is done overtly. For example, it will be possible to record if the noisemaker is warned that this will occur if the level of noise continues.

Covert recording of noise where the recording is of decibels only or constitutes non-verbal noise (such as music, machinery or an alarm), or the recording of verbal content which is made at a level that does not exceed that which can be heard from the street outside or adjoining property with the naked ear, are unlikely to constitute either direct or intrusive surveillance. In the latter circumstance, the perpetrator would normally be regarded as having forfeited any claim to privacy. Placing a covert stationary or mobile video camera outside a building to record anti-social behaviour on residential estates **will** require prior authorisation.

Use and Management of a CHIS

Particular requirements apply to the management and use of a CHIS. This is particularly important when considering that the CHIS may be putting themselves in some jeopardy by performing as a CHIS. Details of those arrangements are contained within **Appendix 3**.

The Senior Authorising Officer must be satisfied that these arrangements are in place before authorising a request. The overriding duty is to the safety of and duty of care towards the CHIS.

Further Information

Further guidance on CHIS can be found in the Home Office's Codes of Practice on surveillance listed in **Appendix 5**.

9. Acquisition of Communications Data

What is Communications Data?
Communication data means any traffic or any information that is or has been sent by/over a telecommunications system or postal system, together with information about the use of the system made by any person.

Procedure

There are powers granted by S22 RIPA in respect of the acquisition of Communications Data from telecommunications and postal companies. These issues are beyond the scope of this Policy. Where an Authorised Officer considers that such data is required, the advice of the RIPA Monitoring Officer should be sought.

10. Authorisation Procedures

Directed surveillance and the use of a **CHIS** can only gain the protection under RIPA if properly authorised, and conducted in strict accordance with the terms of the authorisation. **Appendix 2** provides flow charts of processes from application / consideration to recording of information and the storage / retention of data obtained.

Authorising Officers

Forms can only be signed by Authorising Officers who are trained and have the necessary authority from the Council. Authorised officers are listed in **Appendix 1**. It is the person that is authorised rather than his/her post. This Appendix will be kept up to date by the RIPA Monitoring Officer and added to as needs require. If it is felt that a post should be removed or added, the RIPA Monitoring Officer will request a resolution from the Audit Committee. The RIPA Monitoring Officer is however able to suspend an Authorising Officer from the list as detailed above.

All RIPA authorisations must be for specific investigations only and must be reviewed, renewed or cancelled once the specific surveillance is complete or about to expire. **The authorisations for directed surveillance last for three months and for CHIS 12 months (four months for a juvenile CHIS); however they must also be cancelled as soon as the need for them no longer exists.**

Training Records

All Council staff who may be involved in the application, authorisation and management of covert activity will receive refresher training as appropriate in the issues to take into account, including in relation to online covert activity. The RIPA Monitoring Officer will keep a record of those receiving training and will work with Human Resources to ensure that training is carried out as appropriate to account for staff turnover, legislative changes etc. Periodic tests will be conducted to ensure that the Authorising Officers and Applying Officers retain the knowledge.

The training and testing regime will be documented in sufficient detail to enable assessment of its quality and competence.

Application Forms

Only the RIPA forms set out in this Policy are permitted to be used. **The Authorising Officer and/or the RIPA Monitoring Officer will reject any other forms used.** All forms are available on the Intranet.

'A Forms' (Directed Surveillance) -see Appendix 6

Form A1 - **Application** for Authority for Directed Surveillance
Form A2 - **Review** of Directed Surveillance Authority
Form A3 - **Renewal** of Directed Surveillance Authority
Form A4 - **Cancellation** of Directed Surveillance
Form A5 - **Judicial approval** for Directed Surveillance

'B Forms' (CHIS) -see Appendix 7

Form B1- **Application** for Authority for Conduct and Use of a CHIS
Form B2 - **Review** of Conduct and Use of a CHIS
Form B3 - **Renewal** of Conduct and Use of a CHIS
Form B4 - **Cancellation** of Conduct and Use of a CHIS
Form B5 - **Judicial approval** for the use of a CHIS

Grounds for Authorisation

Directed Surveillance **(A Forms)**and the Conduct and Use of the CHIS **(B Forms)** can be authorised by the Council **only on the grounds of preventing or detecting crime. NO other grounds are available to local authorities.**

Assessing the Application Form

Before an Authorising Officer signs a Form, **s/he must:**

(a) Be mindful of this Policy, the training provided and any other guidance issued, from time to time, by the RIPA Monitoring Officer on such matters;

(b) **Be clear on what is being authorised and make sure that there are no ambiguities in either the application or the authorisation;**

(c) **Ensure that his/her statement as the Authorising Officer is completed spelling out the "5Ws" – who, what, where, when, why and how. In addition the Authorising Officer must ensure that the proposed operation is both necessary and proportionate;**

(d) Satisfy his/herself that the RIPA authorisation is:
    (i) **In accordance with the law;**
    (ii) **Necessary** in the circumstances of the particular case on the grounds mentioned above; and
    (iii) **Proportionate** to what it seeks to achieve;

(e) In assessing whether or not the proposed surveillance is necessary, consideration should be given to whether it is necessary to use covert surveillance in all the circumstances. Consideration must be given as to whether the information could be obtained by other means;

(f) In assessing whether or not the proposed surveillance is proportionate, consider whether there are any other non-intrusive methods available and, if there are none, whether the proposed surveillance is no more than necessary to achieve the objective, as the **least intrusive method will be considered proportionate by the courts. Guidance on proportionality is given above;**

(g) Take into account the risk of intrusion into the privacy of persons other than the specified subject of the surveillance **(Collateral Intrusion)** and the Applying Officer's plan to minimise that intrusion. Measures must be taken wherever practicable to avoid or minimise (so far as is possible) collateral intrusion. When considering proportionality the right to privacy of both third parties and the intended subject of the investigation must be considered against the seriousness of the offence and harm likely to be caused;

(h) Allocate a Unique Reference Number (URN) for **each form**;

(i) Set a date for **review** of the authorisation and review the authorisation on that date using the relevant form. The Authorising Officer should take account of how long authorisations for directed surveillance may last for (three months). The review date must be appropriate for the type of surveillance sought. At a review the Authorising Officer should be satisfied that the criteria for granting the authorisation still exists. They may also amend the authorisation;

(j) **Make sure that the authorisation expiry date and time are inserted;**

(k) Ensure that any RIPA Departmental Register is duly completed, and that a copy of the RIPA Forms (and any review / renewal / cancellation of the same) is forwarded to the RIPA Monitoring Officer's Central Register, **within 2 working days of the relevant authorisation, review, renewal, cancellation or rejection.** The original should be kept on the departmental register; and

(l) If unsure on any matter, obtain advice from the RIPA Monitoring Officer before signing any forms.

The authorisation section of the form should be completed in the Authorising Officer's own handwriting and in his/her own words. The Authorising Officer must be prepared to justify his/her authorisation in a court of law and must be able to answer for his/her decision.

Additional Safeguards when Authorising a CHIS

When authorising the conduct or use of a CHIS, the Authorising Officer must also:

(a) Be satisfied that the **conduct** and/or **use** of the CHIS is proportionate to what is sought to be achieved;

(b) Be satisfied that **appropriate arrangements** are in place for the management and oversight of the CHIS and this must address health and safety issues through a written risk assessment **(see Appendix 3)**;

(c) Consider the likely degree of intrusion of all those potentially affected;

(d) Consider any adverse impact on community confidence that may result from the use or conduct or the information obtained;

(e) Ensure **records** contain particulars and are not available except on a need to know basis; and

(f) If unsure on any matter, obtain the advice from the RIPA Monitoring Officer **before** signing any forms.

Judicial Approval

After an Authorising Officer has authorised directed surveillance or the Senior Authorising Officer has approved the use of a CHIS, the Council **must** make an application to the Magistrates' Court for approval of the authorisation. This applies to all authorisations and renewals. The activity permitted by the authorisation **cannot** be carried out until the court has approved the authorisation.

After the Authorising Officer has approved the application, the Applying Officer (or the Authorising Officer in appropriate cases) must complete the first part of the approval form found at **Appendix 6** and **Appendix 7**. Two copies of the approval form, the original authorisation and a copy must be taken to court for the Magistrate to consider.

The court will consider:

(a) if the Authorising Officer was at the correct grade; and

(b) whether the activity proposed is necessary and proportionate.

The authorisation and the approval form must be detailed enough for the court to consider the application. Whilst the court may ask the Officer attending court to clarify the application, oral evidence is not a substitute for a full and reasoned written application.

The court can either approve or quash the authorisation or renewal. Any application for renewal must take place before the expiry of the authorisation. The Applying Officer must ensure that any application to renew is made in good time so that the Authorising Officer and the court have enough time to consider the application.

The original authorisation must be retained by the Council. A copy of the approval or rejection by the Magistrates must be placed on the department's register and a further copy given to the RIPA Monitoring Officer for his/her Central Register.

Any Officer attending court to obtain judicial approval **must be authorised by the Council under section 223 of the Local Government Act 1972** to conduct legal proceedings on the Council's behalf.

Further information about the procedure for obtaining judicial approval can be found at **Appendix 8**.

Duration

The form must be reviewed in the time stated, renewed and/or cancelled once it is no longer needed. The authorisation to carry out/conduct the surveillance lasts for three months (from authorisation) for Directed Surveillance, and 12 months (from authorisation) for a CHIS and four months for a juvenile CHIS. However, whether the surveillance is carried out/conducted or not, in the relevant period, does not mean the authorisation is 'spent'. In other words, **the forms do not expire.** The forms have to be **reviewed, renewed and/or cancelled** (once they are no longer required).

Authorisations can be renewed in writing before the maximum period in the Authorisation has expired. The Authorising Officer must **consider the matter afresh** including taking into account the benefits of the surveillance to date and any collateral intrusion that has occurred. An Authorisation cannot be renewed after it has expired. In such event, a fresh Authorisation will be necessary.

The renewal will begin on the day when the Authorisation would have expired.

11. Working With/Through Other Agencies

When some other agency has been instructed on behalf of the Council to undertake any action under RIPA, this Policy and the forms in it must be used (as per normal procedure) and the agency advised or kept informed, as necessary, of the various requirements. They must be made aware explicitly what they are authorised to do.

When some other agency (e.g. Police, HM Revenue & Customs, Department for Work and Pensions etc.):

(a) Wishes to use the Council's resources, that agency must use its own RIPA procedures **and**, before any Officer agrees to allow the Council's resources to be used for the other agency's purposes, s/he **must obtain** a copy of that agency's RIPA form for the record (a copy of which must be passed to the RIPA Monitoring Officer for the Central Register) or relevant extracts from the same which are sufficient for the purposes of protecting the Council and the use of its resources; or

(b) Wishes to use the Council's premises for their own RIPA action and is expressly seeking assistance from the Council, the Officer should normally co-operate with the same unless there are security or other good operational or managerial reasons as to why the Council's premises should not be used for the agency's activities. Suitable insurance or other appropriate indemnities may be sought, if necessary, from the other agency for the Council's co-operation in the agency's RIPA operation. In such cases, however, the Council's own RIPA forms should not be used, as the Council is only 'assisting' not being 'involved' in the RIPA activity of the external agency.

If the Police or other agency wish to use Council resources for general surveillance, as opposed to specific RIPA operations, an appropriate letter requesting the proposed use, extent of remit, duration, who will be undertaking the general surveillance and the

purpose of it must be obtained from the Police or other agency before any Council resources are made available for the proposed use. The appropriate head of service will be responsible for
agreeing to the proposed use.

Joint operations

Where the Council is conducting an investigation jointly with another agency and that investigation involves directed surveillance or use of a CHIS only one authorisation under RIPA is needed. Duplicate authorisations therefore should be avoided. At the start of the joint operation the relevant Assistant Directors or Chief Service Officers should agree with his/her opposite number in the other agency who the lead body should be. The lead body will be responsible for RIPA authorisations.

If in doubt, please consult with the RIPA Monitoring Officer at the earliest opportunity.

12. Record Management

The Council must keep a detailed record of all Authorisations, Reviews, Renewals, Cancellations and rejections in Departments and **a Central Register of all Authorisation**
Forms will be maintained and monitored by the RIPA Monitoring Officer.

Records Maintained in the Department

The Council will retain records for a period of at least three years from the ending of the Authorisation. The Investigatory Power Commissioner's Office (IPCO) can audit/review the Council's policies and procedures and individual Authorisations, Reviews, Renewals, Cancellations and rejections.

Central Register Maintained by the RIPA Monitoring Officer

Authorising Officers must send a copy of any authorisation, cancellation, renewal or review to the RIPA Monitoring Officer within 2 working days of the issue. Whilst the RIPA Monitoring Officer is responsible for oversight and review of the records, the Authorising Officers are responsible for their own records.

13. Reporting Arrangements

Where there has been an application for the use of powers under RIPA, a report on the use of the powers shall, within three months of the application (or as soon as practical), be provided to the Audit Committee.

14. Concluding Remarks

Where there is an interference with the right to respect for private life and family guaranteed under Article 8 of the European Convention on Human Rights, and where there is no other source of lawful authority for the interference, or if it is held not to be necessary or proportionate to the circumstances, the consequences of not obtaining or following the correct authorisation procedure set out in RIPA and this Policy, may be that the action (and the evidence obtained) will be held to be unlawful by the courts pursuant to Section 6 of the Human Rights Act 1998.

Obtaining an authorisation under RIPA and following this Policy will ensure therefore, that the action is carried out in accordance with this law and subject to stringent safeguards against abuse of anyone's human rights.

Authorising Officers MUST exercise their minds every time they are asked to consider a form. They must NEVER sign or rubber stamp form(s) without thinking about their own personal and the Council's responsibilities. They should also report refusals to the RIPA Monitoring Officer. The RIPA Monitoring Officer will be able to assess whether the refusals were reasonable and this will also be reported to the Audit Committee of the Council.

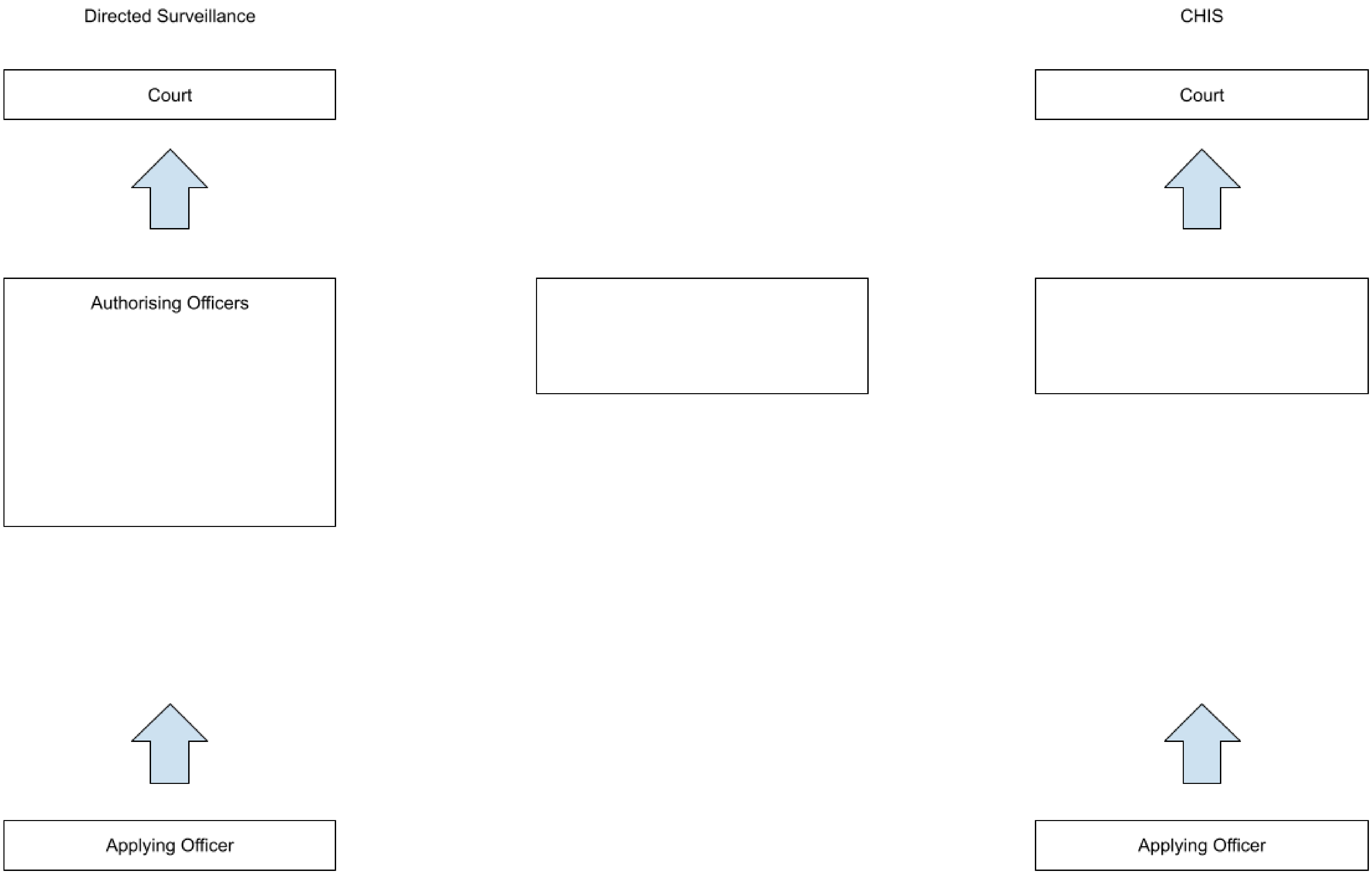
Any boxes not needed on the form(s) must be clearly marked as being 'NOT APPLICABLE', 'N/A' or a line put through the same. Great care must also be taken to ensure accurate information is used and is inserted in the correct boxes. Reasons for any refusal of an application must also be kept on the form and the form retained for future audits.

For further advice and assistance on any aspect of RIPA, please contact the Council's RIPA Monitoring Officer; contact details are set out in **Appendix 1**.

Appendix 1 – List of Senior Authorising Officers Authorising Officers, Senior Responsible Officer and RIPA Monitoring Officer

Post Title	**Current Post Holder**	**RIPA Post**	**Contact Details**
Head of Paid Service	Tricia Marshall	Senior Responsible Officer (SRO)/Senior Authorising Officer (SAO)	tricia.marshall@canterbury.gov.uk
Director of People and Place	Suzi Wakeham	Authorising Officer/ Senior Authorising Officer in the absence of the (SAO)	suzi.wakeham@canterbury.gov.uk
Director of Strategy & Improvement	Peter Davies	Authorising Officer	peter.davies@canterbury.gov.uk
Head of Legal Services	Jan Guyler	RIPA Monitoring Officer	jan.guyler@canterbury.gov.uk
Service Director of Place	Bill Hicks	Authorising Officer	Bill Hicks @canterbury.gov.uk
Service Director of People	Marie Royle	Authorising Officer	marie.royle@canterbury.gov.uk
Head of Corporate Governance	Matthew Archer	Authorising Officer	matthew.archer@canterbury.gov.uk

RIPA MANAGEMENT STRUCTURE



Appendix 2 – Flow Chart for Directed Surveillance and CHIS

Applying officer must:

- Read this policy and the codes of practice
- Consider whether the authorisation is in accordance with the law and necessary
- Consider whether the surveillance is proportionate

CHIS

If authorisation is necessary for the use of a CHIS, prepare and submit for B1 to the senior authorising officer

If a less intrusive option is available, take it

Directed surveillance

If authorisation is necessary and proportionate, prepare and submit Form A1 to the authorising officer

Senior/authorising officer must:

- Consider this policy and the codes of practice
- Consider whether the surveillance is in accordance with the law, is necessary and proportionate
- Authorise only if an overt or less intrusive option is not practicable
- Set an appropriate review date of up to three months after the authorisation date
- Best practice is for the same authorising officer to conduct the review

Copies of all forms must be sent to the RIPA monitoring officer for entry into the central database within 2 working days of completion

Applying officer must:
Apply to the magistrates' court for approval of the authorisation or renewal

Applying officer must:

- Review the authorisation by the review date set by the authorising officer and either:
- Ask for a further authorisation from the authorising officer; or
- Cancel the authorisation and submit to the authorising officer

Authorising officer must:

- Renew the authorisation if still necessary and proportionate and set a further review date; or
- Cancel the authorisation

Applying officer – the person who makes a request to use RIPA powers;
Authorising officer – the person who considers whether or not to grant an authorisation;
Senior authorising officer – the senior person who considers whether or not to grant an authorisation for the use of a CHIS

Appendix 3 – Additional Notes for the Use and Management of a CHIS

Tasking

1 “Tasking” is the assignment given to the CHIS by the persons defined in sections 29(5) (a) and (b) of RIPA, asking him/her to obtain information, provide access to information or to otherwise act incidentally, for the benefit of the relevant public authority.

2 Authorisation for the use or conduct of a CHIS must be obtained prior to any tasking where such tasking requires the CHIS to establish or maintain a personal or other relationship for a covert purpose.

3 The person referred to in section 29(5) (a) of RIPA will have day to day responsibility for:
- Dealing with the CHIS on behalf of the Council
- Directing the day to day activities of the CHIS
- Recording the information supplied by the CHIS, and
- Monitoring the CHIS’s security and welfare

4 The person referred to in section 29(5) (b) of the 2000 Act will be responsible for the general oversight of the use of the CHIS.

5 The authorisation should not be drawn so narrowly that a separate authorisation is required each time the CHIS is tasked. The authorisation could cover the broad terms of the CHIS’s task.

6 The persons mentioned in paragraphs 3 and 4 above must take great care to ensure that actions are recorded in writing and must also keep the authorisation under review to ensure that it covers what the CHIS is actually doing. During the course of a task, unforeseen events may occur which mean that the authorisation may need to be cancelled and applied for again.

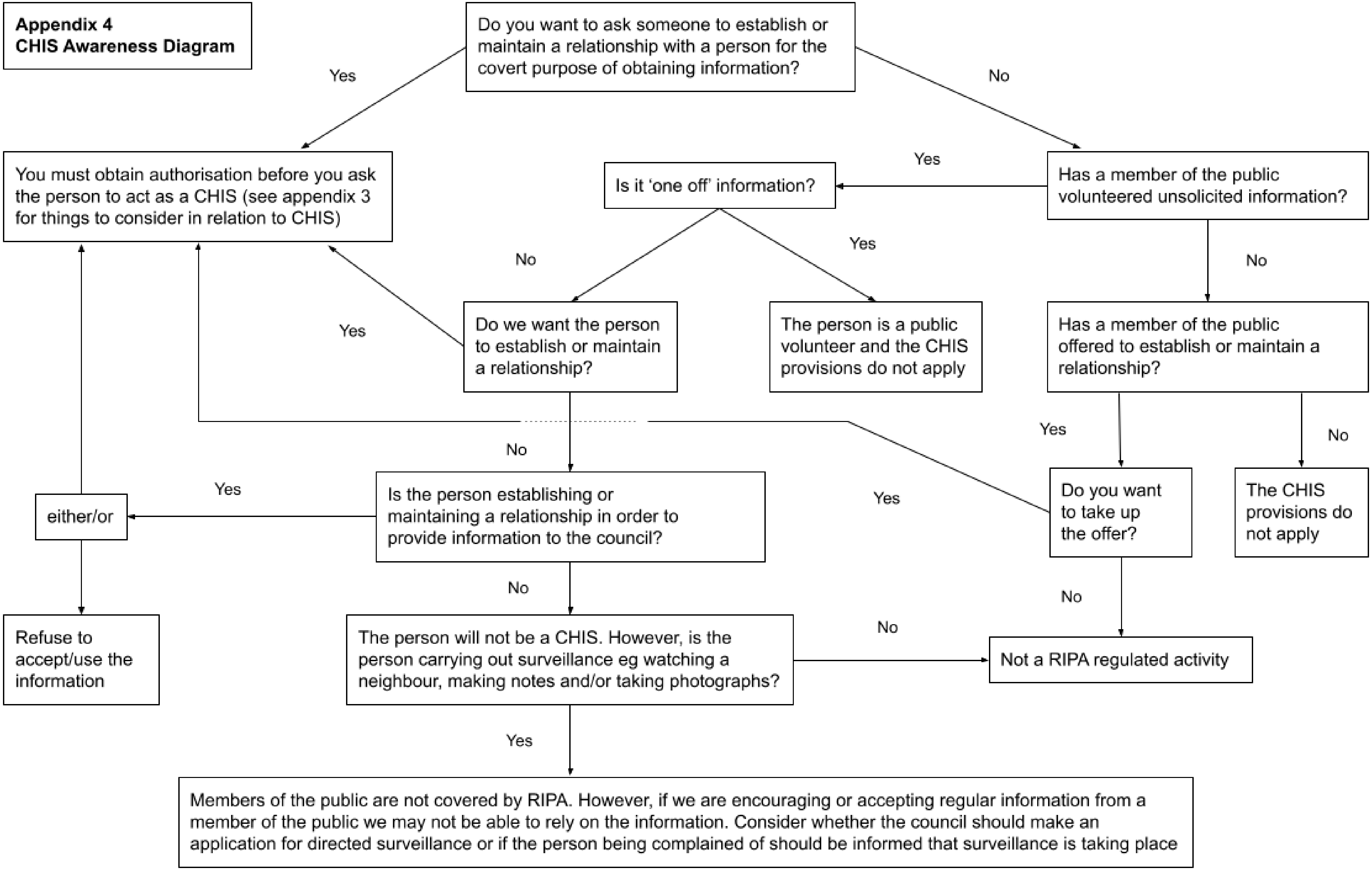
7 The Corporate Director – Strategy as Head of Paid Service of the Council has the power to appoint officers to act under s29(5)(a) and (b) of RIPA.

8 In relation to health and safety, before tasking a CHIS, the relevant Officers will ensure that a risk assessment is carried out which determines the risk to the CHIS and to others in carrying out the task. The ongoing security and welfare of the CHIS after the task has been completed should also be considered.

9 Further advice on good practice is contained within the CHIS Code of Practice.

CHIS Code

Appendix 4
CHIS Awareness Diagram



This flowchart cannot answer every scenario an officer may encounter. If you are unsure whether or not you authorisation speak to Legal Services or the RIPA monitoring officer

Appendix 5 - Codes of Good Practice

RIPA Codes of Practice can be accessed at:

Covert surveillance and covert human intelligence sources codes of practice

Appendix - 6 Directed Surveillance Forms

Directed surveillance application form

Directed surveillance renewal form

Directed surveillance review form

Directed surveillance cancellation form

Judicial approval form

Appendix 7 - CHIS Forms

Application to authorise a CHIS

CHIS cancellation form

CHIS renewal form

CHIS review form

Judicial approval form

Appendix 8 – Judicial approval protocol

In order to obtain judicial approval for your RIPA authorisation you will need to book an appointment to attend court. You must not turn up to court without an appointment. This step must not be taken unless an Authorised Officer has first authorised the application.

To book an appointment, contact the court administration centre on 01303 227800 (East Kent admin) or 01634 830232 (North Kent Admin) or email: KentMC@justice.gov.uk
There may be a delay between you making the appointment and attending court so make sure you factor this in when thinking about your timetable and the start date.

Your application may be heard at Folkestone or Margate Court. You will generally be asked to attend court at 9.30am before the court starts sitting although you may be given an alternative time to attend.

You will need to take two copies of the approval form with the first part completed and the original authorisation to court as well as a copy. Ensure that you retain the original authorisation and a signed approval form.

Item 12

Audit Committee

13 March 2024

Subject: Strategic Risk Register

Director and Head of Service:

Nicci Mills - Service Director Finance & Procurement

Rob May - Head of Finance

Cabinet Member:

Mike Sole

Key or Non Key decision: Non Key

Decision Issues:

These matters are to be noted within the authority of the Audit Committee

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Is any of the information exempt from publication:

No

CCC ward(s): All

Summary and purpose of the report:

This report updates Councillors on the key risks facing the council.

Appendix 2 lists the changes since the last quarterly report to this committee, a summary ranking to highlight the major risks and the detailed version of the Risk Register showing how risks are being managed.

To Recommend/Resolve/Consider/Note [delete as appropriate]:

To note the current position and to make comments, if required to Full Council.

Next stage in process:

This report will be reported to Cabinet Committee

1. Introduction

Regulation 3 of the Accounts and Audit (Amendment) (England) Regulations 2015 requires from 1st April 2015:

“A relevant authority must ensure that it has a sound system of internal control which—

(a)facilitates the effective exercise of its functions and the achievement of its aims and objectives;

(b)ensures that the financial and operational management of the authority is effective; and

(c)**includes effective arrangements for the management of risk**.”

2. Detail

Management Team formally considers these key risks on a regular basis and confirm with the relevant Director what action is being taken to mitigate them. Attention is centred on those which are ‘High ‘ or ‘Medium’. There is a standing item at every Management Team meeting to consider any emerging risks, which need to be added to the risk register.

Since the last report the risk of a Cyber Incident has been split out of The Business Continuity (ICT service) risk so that it can be separately considered.

We have recently experienced a Cyber Incident which although contained, continues to be one of the most significant risks to the council in both likelihood and impact level.

As one of the most significant risks to business continuity being a cyber incident has now been removed from the risk heading of Business Continuity (ICT Service) the remainder reflects a reduced risk of likelihood and has been reflected in the given score.

The risk level on Workforce Capacity and Skills has now been reduced again following a temporary increase last quarter. This is because it is now felt progress has been made in staff recruitment and retention.

Scoring of the risk of Reinforced Autoclaved Aerated Concrete (RAAC) in public buildings and housing stock remains to be too early to assess, however the investigation process continues with no new potential RAAC use and the associated risks needing to be reported to the Audit Committee at this time.

The Scale of Property Purchase and Refurbishment risk will be removed from the register next quarter as the number of concurrent projects has significantly reduced with the completion of The Riverside, the housing development at Kingsmead Field, the Parham conversion project and the capital refurbishment works being undertaken by Active Life/Fusion at both Herons and Whitstable Leisure Centres.

3. Relevant Council policy, strategies or budgetary documents

Risk Management Policy

4. Consultation planned or undertaken

No consultation required

5. Options available with reasons for suitability

To consider the current position and make such comments to Full Council as this committee sees appropriate

6. Reasons for supporting option recommended, with risk assessment

To ensure Corporate Governance process is robust and effective.

7. Implications

(a) Financial - none identified

(b) Legal - none identified

(c) Equalities - none identified

(d) Environmental including carbon emissions and biodiversity

Effective internal controls are essential for ensuring, economy, efficiency and effectiveness in the delivery of council services and sound governance arrangements to reduce risks from whatever source.

Other implications

(e) Staffing resource - none identified

(f) Property portfolio - none identified

(g) Planning including building regulations - none identified

(h) Human rights issues - none identified

(i) Crime and disorder - none identified

(j) Safeguarding children - none identified

(k) Heritage - none identified

7. Conclusions

The business risks associated with the complexity of both local government and the rapidly changing business environment require the establishment of robust structures, systems and internal control procedures to effectively manage risk.

Independent review of these arrangements ensures that adequate attention is given to managing these business risks and informs councillors of the organisational risks.

Contact Officer: Nicci Mills - Service Director FInance & Procurement

Appendix 1 Scoring Matrix
Appendix 2 Strategic Risk Register

Appendix 1 Scorin atrix

Likelihood

Score 1 Highly unlikely	**Score 2 Unlikely**	**Score 3 Possible**	**Score 4 Very likely**	**Score 5 Definite**
Previous experience at this and other similar organisations makes this outcome highly unlikely to occur.	Previous experience discounts this risk as being likely to occur but other organisations have experienced problems in this area.	The council has in the past experienced problems in this area but not in the last three years.	The council has experienced problems in this area in the last three years.	The council is experiencing problems in this area or expects to in the next 12 months.
There are effective, tested and verifiable controls in place that prevent occurrence of this risk.	There are controls in place that whilst not tested appear to be effective.	Some controls are in place and generally work but there have been occasions when they have failed and problems have arisen.	Controls may be in place but are generally ignored or ineffective.	No controls are in place.

Impact

Score 1 Negligible	**Score 2 Low**	**Score 3 Medium**	**Score 4 High**	**Score 5 Very high**
Little or no financial impact (less than £5,000)	The financial impact would be losses or loss income of no greater than £25,000	The financial impact would result in losses or loss income of no greater than £100,000	The financial impact would result in losses or loss income of no greater than £500,000.	The financial impact would be greater than £500,000.
Council services are not disrupted	Some temporary disruption to the activities of one council service but not beyond this.	Regular disruption to the activities for one or more council service.	Severe service disruption on a departmental level or regular disruption affecting more than one department.	Severe disruption to the activities of all council departments.
No impact on the delivery of the councils corporate objectives	It may cost more or there may be delay in delivering one of the councils corporate objectives.	A number of corporate objectives would be delayed or not delivered.	Many corporate objectives delayed or not delivered.	Unable to deliver most objectives.
No loss of confidence and trust in the council.	Some loss of confidence and trust in the council felt by a certain group or within a small geographical area.	A general loss of confidence and trust in the council within the local community.	A major loss of confidence and trust in the council within the local community.	A disastrous loss of confidence and trust in the council both locally and nationally.

Appendix Strate ic i e i ter

Index	Risk	Responsible Officer	Score / 25
1	Balancing the budget	Nicci Mills	25
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19	Business Continuity (ICT service)	Caroline Marlow	12
14	Workforce capacity and skills	Charlie Greenway	12
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4	Housing Demand	Abigail Agba	9
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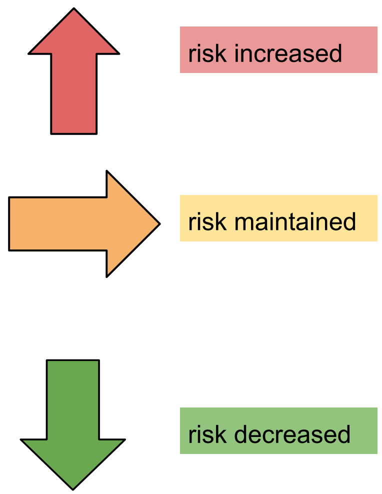
23	Scale of property purchase and refurbishments	Richard Hall	3
25	RAAC	Alexis Jobson	TBC
26	Shortage of Building Control Officers	Simon Thomas	TBC

KEY



Summary of the Strategic Risk Register

What is a Strategic Risk?

Strategic risk refers to the internal and external events that may make it difficult, or even impossible, for an organisation to achieve their objectives and strategic goals. These risks can have severe consequences that impact the organisation in the long term.

Daily operational risks will only become Strategic risks if there is a major failure in the internal control systems and processes in place that will then escalate a problem organisation wide.

The councils Risk Management Policy gives clear detail about how risk management develops:

Risk should not be considered solely as a threat. Risk management should assist the council in reaching corporate objectives rather than looking to control risks at all cost.

Where possible risk management should complement the council's existing management processes rather than creating parallel processes.

Risk management needs to be flexible adhering to principles rather than a rigid structure.

Process should be streamlined to ensure that introspection does not take the place of action.

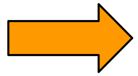
The process should be document light.

Best practice recommendations should only be adopted when there are convincing arguments that they would benefit the council.

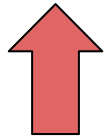
The process should avoid becoming too concerned with its own jargons and definitions.

There should be clear responsibility for risks and their management and this would be the cornerstone of any mitigation strategy. Equally there should be an acceptance that managers must be allowed a good degree of freedom to manage their risks in a manner appropriate to their departments

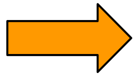
Balancing the budget

Risk name	What are the risks	Controls or Mitigations	Comments
Balancing the budget SCORE 25 Likelihood 5 Impact 5 Responsible Officer: Nicci Mills	reduced LA Funding from grants and central government the impact of inflation on our community and local businesses means our income is reduced the council will struggle to maintain our service level and fulfil our capital programme and projects the Housing revenue account working balance is not sufficient for the current year	The budget for the current year and next financial year is balanced . Stringent budget monitoring every quarter to identify where problems lie and manage corporately. Additional stringent regular monitoring is in place to monitor housing spending and forecasts and keep budgets on track.	 Additional core spending power has helped alleviate the budget pressures for 23/24 and 24/25. The funding landscape thereafter is very uncertain and continues to potentially change every year, resulting in uncertainty, reducing the ability to forward plan longer term.

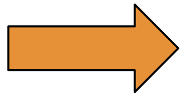
Cyber Incident

Risk name	What are the risks	Controls or Mitigations	Comments
Cyber Incident SCORE 25 Likelihood 5 Impact 5 Responsible Officer: Caroline Marlow	Virus, malware or ransomware attack on the council's IT infrastructure	Security audit by external provider to provide assurance Use of XDRs and increased security infrastructure Increased staff awareness training on cyber risks Increased ISO resilience and proliferation within CCC Improved remote device management protocols Separation of network infrastructure to increase business unit resilience	 We have responded to a cyber incident in January 2024 Nationally and locally there have been cyber risks to key systems, bringing greater challenge in the management and recovery of our IT infrastructure.

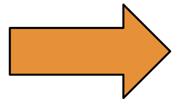
Housing Assets - maintenance and compliance

Risk name	What are the risks	Controls or Mitigations	Comments
Housing Assets – maintenance and compliance SCORE 20 Likelihood 4 Impact 5 Responsible Officer: Alexis Jobson	Financial risk as major investment need to bring our housing stock up to standard Compliance failures on safety checks and outstanding remedial works e.g fire safety works and Legionella Failure to react to customer complaints and carry out repairs to properties Need to improve the carbon efficiency of housing stock Improvement of housing stock is currently reactive rather than proactive and is mainly focussed on compliance and building safety Current issue with outstandng gas safety inspections due to change of policy on accessing properties leading to increasing numbers.	Two year plan in place starting March 2023 to carry out stock condition surveys on all housing stock Northgate system needs to be updated to include condition surveys, compliance issues and planned works CCC is now out of regulation under the RSH. Compliance reporting continues with quarterly reports to Scrutiny Sub Committee and fortnightly and monthly internal meetings with management to ensure we keep track of compliance and react accordingly to any issues. Review of Mears maintenance and repairs contract to improve performance Proactive approach being taken, continuing to contact residents without a current gas safety cert to try and gain entry.	 As a result of significant progress, the Regulator has agreed to remove the regulatory notice from their website, and allow CCC to manage compliance independently The Responsive Repairs and Void (RRV) contract (incumbant Mears) has been retendered. The new contractor, Osborne Property Services, will start on 1 April 2024. The contract has many improvements built into it to assist with better budget control and service to tenants.

Waste collection, street cleansing, Grounds Maintenance, Public Conveniences Cleansing and Building Cleaning Contracts

Risk name	What are the risks	Controls or Mitigations	Comments
Waste collection, street cleansing, Grounds Maintenance, Public Conveniences Cleansing, and Building Cleaning Contracts SCORE 16 Likelihood 4 Impact 4 Responsible Officer: Tricia Marshall	Risk to the council's reputation if the performance level of the contractor is not maintained as these are very high-profile contracts. Financial risks: payments from KCC linked to achieving recycling targets, significant income achieved by delivering chargeable services including garden waste, scale of contracts is such that cost pressures through these contracts have a significant impact on the council's budget.	All contracts are monitored and officers working closely with all contractors working on improvements where necessary.	 Contracts for public convenience cleaning and building cleaning currently being relet and the specifications have been reviewed as part of that process.

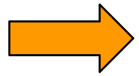
Relationships with Trusts and other Outside Bodies

Risk name	What are the risks	Controls or Mitigations	Comments
Relationships with Trusts and other Outside Bodies SCORE 16 Likelihood 5 Impact 4 Responsible Officer: Michelle Moubarak	The primary risk is that Trusts fail and therefore public services cease or pressure is placed on the council to restore the services in house.	External organisations continue to struggle with increasing operating costs due to the economic environment. This is monitored by our External Development team to assess the impact on local residents and suitable interventions if and when necessary. Currently we are working with organisations that are struggling to sustain operationally to see what support and guidance we can put in place.	

Homelessness

Risk name	What are the risks	Controls or Mitigations	Comments
Homelessness SCORE 16 Likelihood 4 Impact 4 Responsible Officer: Abigail Agba	Increased homelessness of complex approaches to the council The district has significant numbers of rough sleepers There is still significant financial pressures of placing people in temporary accommodation. Increased competition for social housing Impact of welfare reform on homelessness No winter transformation fund has been applied for, this will have an impact on SWEP cost. However 57K allocated By DLUCH to CCC to prevent homelessness for rough sleepers KHC contract is coming to an end 31 March 2024, wil increase both street homelessness and statutory homelessness Ukraine Households that are still with hosts, risk breaking down due to the length of time they have remained as guests. The HNR & Homeless Team have transferred to the new management system and this is still being embedded. Recent cyber incident will see an increase in workloads and complaints. Current invoices for TA providers remain unpaid KCC commissioners have changed the support they provide to young people. This is likely to see an increase in YP's. Rapid re-housing contract ending in March.	The team now has a Landlord Liaison Officer to assist in gaining greater access to the private rented sector and increased number of allocations of properties. Properties acquired within the district to accommodate homeless households who are awaiting an offer of more permanent housing and accommodation for rough sleepers. In addition the council has been awarded a capital grant of £1.9m from the Local Authority Housing Fund (LAHF) to part-fund the provision of 13 affordable rent homes to support resettlement in the district. Further funding from LAHF has been offered and we are looking at the financial impact of this. Rough Sleeping Team works closely with Catching Lives, Porchlight, mental health and substance misuse services to offer coordinated support for those who are rough sleepers or who are at risk of becoming street homeless. Collaborative work with DLHUC is continuing and the service maximises external government funding opportunities to support this valuable work. A light touch review of the council's allocations scheme has taken place to ensure the council is compliant and meeting all necessary legislation and guidance and is likely to lead to a reduction in reviews. Established a young persons panel working with KCC's 18+ team to identify young people leaving care without a move on plan to reduce the risk of homelessness and the need for TA. Established a monthly meeting with the prison service to identify those being released from prison that are homeless to provide early advice and assistance. Case and strategy working together to identify families that may need support with finding alternative accommodation. There is a large amount of funding (£7000 per family and £28 per day for support) to be able to negotiate with Landlords and provide wrap-around support. Received extra HPG top - up grant (£298, 407 for Canterbury) is being given to LA's to assist with homeless prevention activity to help Ukraine families secure accommodation. Case Manager is working on a recovery plan to manage the backlog of case work.	Homelessness approaches for 22/23 were 1,970 and statistics show that when comparing Q1 of this year with last, the number of approaches appear to be consitent. The Housing Solutions team is now fully resourced. A training plan is in place to induct the new officers, as well as providing refresh on relevant legislation. A new process is in place to help the team manage cases and improve communication with clients. A review of the council's approach to dealing with homeless approaches is underway and a key outcome will be how we can focus on prevention of homelessness. The council is piloting a new Rent Guarantee Insurance Scheme with private sector landlords, this is an incentive to help increase housing options for homeless households. We have recruited to a Domestic Abuse Project Coordination to improve our response and process to those fleeing domestic abuse and we are also looking to introduce a Sanctuary Scheme for those fleeing/experiencing domestic abuse to enable them to stay in their homes as safely as possible where they choose to. We are leading on a piolot scheme of having a Homelessness pathways officer based at QEQM hospital to assist with patients that may be homeless.

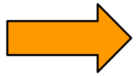
Housing Delivery in the Canterbury District to 2045

Risk name	What are the risks	Controls or Mitigations	Comments
Housing Delivery in the Canterbury District to 2045 SCORE 16 Likelihood 4 Impact 4 Responsible Officer: Leo Whitlock, Simon Thomas	Water quality at Stodmarsh Lakes reduces developers ability to build houses until a solution is found	Continued dialogue with developers and the groups that represent them. Continued dialogue with KCC and other local authority partners. The government has announced a nutrient mitigation scheme, launched by Defra to fund mitigation measures. Working with Natural England to put together a funding bid to government for a catchment-wide solution for the Stodmarsh Lakes issue. A new Local Development Scheme was approved by Cabinet at its meeting on 19 October 2022.	 Planning permission has now been granted for 4,000 homes at South Canterbury which will bolster the supply in the district. The council is involved in ongoing work with Natural England to unlock housing held up by nutrient neutrality (NN) requirements. Around 1,500 homes are currently delayed while a solution to delivering NN is found.

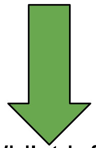
Safeguarding and promoting the welfare of children, young people and adults at risk

Risk name	What are the risks	Controls or Mitigations	Comments
Safeguarding and promoting the welfare of children, young people and adults at risk SCORE 15 Likelihood 3 Impact 5 Responsible Officer: Abigail Agba	The council has a statutory duty to safeguard children, young people and vulnerable adults Any failure to safeguard children would result in prosecution of the council	A corporate Safeguarding Policy is in place and is reviewed annually. A new centralised case recording system of safeguarding concerns (QES) is in place and staff have received training Child Protection Basic Awareness Training and Adult Safeguarding Basic Awareness Training on rolling programme and we are now measuring compliance to idenify staff and services where training is out of date or not Safeguarding action plan provides good framework for continuous improvement DBS checks all held on HR External audits carried out by Kent & Medway Safeguarding Adults Board (KMSAB) and Kent Safeguarding Childrens Multiagency Partnership (KSCMP) to ensure we are fully compliant fulfliing our safeguarding responsibilities	Records of concern are regularly reviewed by Designated Safeguarding Officers although updates are not always available and in some cases carried forward through several meetings. The new reporting system will assist with prompting updates. Safeguarding Action Plan continues to be monitored through the Safeguarding Key Contacts Meeting DBS Complaince currently at 91.3% (Sept 23) - this is a drop from previous 97% due to large number of new starters. Risk assessments are in place for those that start work before DBS is through & all outstanding renewals are in progress. KMSAB audit has been completed and received good feedback through the peer review process. There were some actions that require completion and have been added to the safeguarding action plan. Some of these will be wrked on jointly with the other Kent Districts for consistency

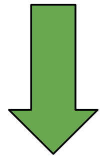
Delivering the Climate Change Action Plan

Risk name	What are the risks	Controls or Mitigations	Comments
Delivering the Climate Change Action Plan SCORE 15 Likelihood 5 Impact 3 Responsible Officer: Leo Whitlock	The council will not achieve its commitment to net zero carbon emissions by 2030 and therefore the actions outlined in the Climate Change Action Plan. Failure to secure grant funding for our social housing and council-owned buildings decarbonisation action plan targets	Monthly meetings being held with Cabinet Member for Climate Change and Biodiverisity to drive this agenda and monitor progress on the Climate Change Action Plan which is reported annually to Cabinet. Net zero governance officer group put in place to help plan activity across the council and dedicate resources to enable more effective progress. Change Change reserve of £500,000 proposed for 2024/2025 budget which will be considered by Full Council at its meeting on 22 February 2024 which will be used to facilitate delivery of the Climate Change Action Plan and unlock funding from the Department for Energy Security & Net Zero among others where match funding is required. Specific projects have been set up for enabling resources for large funding bids including SHDF, PSDS, and Local Electric Vehicle Infrastructure (LEVI). Review and update of Climate Change Action Plan to be carried out in Q2 2024 which will be informed by an all-councillor workshop and need to be consulted on before being approved by Cabinet.	

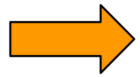
Business Continuity (ICT Service)

Risk name	What are the risks	Controls or Mitigations	Comments
Business Continuity (ICT Service) SCORE 12 Likelihood 3 Impact 4 Responsible Officer: Caroline Marlow	Risk of loss of a network or single network components Loss of one or more servers causing loss of data Fire, power loss, servers overheating. ICT insourcing creates an increased risk of knowledge loss and resilience issues	Business Continuity plans in place for services and for ICT, a new SLA between the council and ICT has plans in place to manage and mitigate cyber security risks Staff have the equipment and resources to work from home effectively and efficiently. new network at Canterbury has mitigated the risks of network loss transition planning across the three councils to mitigate the risk of knowledge loss	 Whilst infrastructure risks remain consistent and mitigated for, there is an increase of business continuity risks through the insourcing of ICT as this brings lower staffing resilience and potentially loss of knowledge and experience in some systems.

Workforce Capacity and Skills

Risk name	What are the risks	Controls or Mitigations	Comments
Workforce capacity and skills SCORE 12 Likelihood 4 Impact 3 Responsible Officer: Charlie Greenway	Critical skills and capacity leaving the council . Staff resource capacity is stretched. The external labour market is difficult for employers with labour shortages, giving high levels of vacancies. Insufficient capacity to succesfully implement the new operating model and leverage the benefits. Insufficient resource to deliver the additional work required for the LUF projects.	The last phase of the organisational change programme completed in August 2023 and a period of stability for staff began. Staff have certainty of their role within the organisation now. MT are actively engaged in discussions about staff workload and capacity and committed to continually reviewing priorities to match commitments. The new operating model has enabled the cross-skilling of staff to increase resilience and facilitate redeployment to respond more effectively to changing priorities and peaks and troughs in work. This work is ongoing and a review of the model is underway to assess where further work to maximise resilience and flexibility may be required. Organisation turnover and recruitment rates are being actively monitored and throughout 2023 , the turnover rate has been reducing month on month and the recruitment rate has seen new starters outstrip the number of leavers in the majority of months of the year. A fixed term Recrutment Specialist has been working in the organisation for 6 months and has supported the recruitment to some critical and hard to fill vacancies as well as improving advert response rates across all vacancies. Further work is planned to develop our employer brand and alter recruitment processes to further increase candidate reach and attraction. A corporate focus in 2024-25 is to build the skills of the workforce through a corporate development programme. A prioritisation programme is underway to ensure resources are available for LUF projects.	 The risk rating has decreased since last quarter as there has been sustained progress in the turnover and recruitment position for the council. The council now has capacity to begin to focus on skill development to further engage and retain staff.

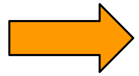
Maintenance of operational assets

Risk name	What are the risks	Controls or Mitigations	Comments
Maintenance of operational assets SCORE 12 Likelihood 3 Impact 4 Responsible Officer: Alexis Jobson	Lack of stock maintenance information for council owned public buildings gives a risk that council stock may deteriorate. A rolling plan of required maintenance is necessary to reduce cost of reactive maintenance. Condition survey data is out of date and needs to be renewed. Resources within the team are stretched with compliance and building safety taking priority at all times. Vacancies remain with the Contracts Team and Technical Locality	The data from conditions surveys is being centralised to enable an informed planned maintenance approach. Potential costs and urgency of repairs are being incorporated into the database allowing repairs to be grouped together into a phased action plan Capital budget for operational assets now has a 3-year plan. Reviewed quarterly with Finance	 Recruitment challenges are ongoing – reflected nationally. Resources are currently diverted onto the LUF project and the new accommodation at Whitefriars which is having an impact on capital works delivery on our GF properties.

Inland waterway flooding

Risk name	What are the risks	Controls or Mitigations	Comments
Inland waterway flooding SCORE 12 Likelihood 4 Impact 3 Responsible Officer: Liam Wooltorton	The district has a risk of inland flooding from surface water, groundwater, rivers and other watercourses. Risk of localised flash floods which are difficult to predict and there is very limited time to respond.	Work with partners to reduce the risk of flooding to residential and industrial land Engineers closely monitor weather conditions and river levels and provide 24/7 standby Up to date flood emergency plan Sandbag stocks are replenished and demountable flood barriers are stored at Canenco's depot Groundwater updates are received from the Environment Agency	**Rivers** Rivers flows are above normal and, given the sensitive nature of the catchment, further spells of wet weather may lead to some flooding impacts locally. The river sluices in the city centre are managed by the engineering team. **Groundwater** Groundwater levels are above normal. Further spells of wet weather through the rest of February and early March could lead to Nailbourne flooding impacts locally. There are currently two flood alerts in force for the district:

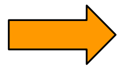
Coastal flooding and tidal surge

Risk name	What are the risks	Controls or Mitigations	Comments
Coastal flooding and tidal surge SCORE 10 Likelihood 2 Impact 5 Responsible Officer: Liam Wooltorton	Large parts of the district's shoreline are in flood risk areas including the coastal towns of Whitstable and Herne Bay. Reputational risk to the council if we have not prepared an emergency plan for dealing with large scale coastal flooding	Coastal defences are maintained to a very high standard Council engineers closely monitor weather conditions and surge residual forecasts and provide a 24 hour, 365 days of the year cover Up to date flood emergency plan and an emergency response contract with Canenco Floodgates are closed when necessary Council engineers operate sluice gates on the coastal brooks to stop tidal surges flooding inland.	 The last tidal surge was on 15 01 2024 when our Engineering team closed floodgates and operated the sluice gates on the coastal brooks to stop the tidal surge flooding inland. Vulnerable Whitstable floodgates have been closed for the winter. Unsettled conditions with spells of strong winds may coincide with the spring tides in late February. The north Kent coast could see spells of large waves and surge depending on the track of any low pressure centres, however, no more than minor impacts are currently expected

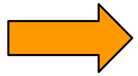
Housing Demand

Risk name	What are the risks	Controls or Mitigations	Comments
Housing Demand SCORE 9 Likelihood 3 Impact 3 Responsible Officer: Abigail Agba	High and increasing demand for social housing, flow of our stock is outstripped by demand. Local housing authorities must ensure that social housing goes to the most vulnerable and those with the greatest needs. There has been an unprecedented increase in housing needs register applications which current resource levels have struggled to manage, and this has led to a backlog in processing housing needs register applications. A significant number of applicants are experiencing a mental health crisis or threatening to self-harm. Sponsorship breakdown for the Homes4Ukraine Scheme Transferring to a new case management system - from Locata to Humme	The housing register has clear parameters governed by the council's allocation policy and by statutory requirements Our own social housing stock is not the only housing solution available. The council has nomination rights to other registered providers. The council operates its own Social Letting Agency, and a new Help to Rent project is being tested to help people into the private rented sector. The council's allocation policy has clear criteria and can prevent people who have no need of social housing from joining the waiting list. A light touch review of the policy has now been completed and adopted. A future full and in depth review, with significant engagement is being planned. 2 FTE additional permanent staff have now been recruited and completed training. Review of internal process of applications completed. Support in place for staff dealing with complex mental health situations and calls. Clear safeguarding policy in place to make referrals to help customers in most need or at risk. Identifying new hosts and rematching households. Enabling access into the private rented sector. Transfer of HNR data has been completed. Applicants are unable to apply for 1 month. Senior team members have attended train the trainer sessions and internal training has been carried out. All communication advises to apply in July.	New Hume new system is now in operation and for HNR applications.HNR applications remain constant at around 220 per month (double the number we historically received). The average number of social housing lets through Kent Homechoice 30 properties per month (demand outstrips supply). We have streamlined how applications are handled and staff have been involved. Data cleansing has been completed and there is no longer a backlog cases. The current number of active applicants on the HNR is 868, there are a further 630 suspended while we awaiting supporting information. If an applicant indicates a homelessnes situation they are automatically routed to complete a homelessness application without the need for triaging via the HNR team. Any application with exceptional circumstances is flagged and fast tracked as a priority. The housing register was transfered to a new flatform from 14 July 2023 the system is taking time to bed in. Risk linked to resettlement programmes is being adequately managed at operational level.

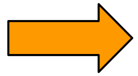
Traffic congestion

Risk name	What are the risks	Controls or Mitigations	Comments
Traffic congestion SCORE 9 Likelihood 3 Impact 3 Responsible Officer: Richard Moore	Congestion on the road network has a detrimental impact on the local community and can restrict economic development and business growth KCC as highway authority has ultimate responsibility for traffic management and congestion, but CCC is able to influence through the Local Plan and through good working practices. There are 2 air quality management areas, one in Herne and one in Canterbury which covers large parts of the central area of the city	A2 junction improvements, Sturry relief road, Wincheap gyratory and Howe Barracks link road included in draft Local Plan. A scheme to widen Bullockstone Road to provide a relief road for Herne was completed in 2023 but is not yet linked through the new development so is not achieving its full potential yet. Howe Barracks link road is progressing but not yet open. Construction work on the Sturry relief road is programmed to begin in April 2025, but the A2 junction improvements associated with the Mountfield development are not yet programmed. The Transport Strategy targets have been set to absorb the impact of extra traffic from the Local Plan developments. Developers are expected to submit travel plans within their applications that meet or better the targets set. A new draft transport strategy incorporating a bus strategy and cycle strategy is about to be published for consultation as part of the emerging new Local Plan 2040. Traffic flows on main roads are monitored using DfT data. These show a steady decrease in traffic flows since 2008 on all city centre A roads. The exception to this is A2 Canterbury bypass where traffic flows have increased by 30% since 2000. This demonstrates the national trend against which the decreases on local roads can be measured. The latest census data shows a marked increase in people working from home and a corresponding decrease in all other modes of transport for the home to work journey dataset. Notwithstanding this, the risk of congestion on the approaches to the city centre makes for unstable journey time reliability. Levels of nitrogen dioxide along Military Road have stabilised. A programme of the installation of more EV points is currently underway. The EV strategy adopted in April 2022 aims to increase the current provision of charging across the District by providing sufficient charging infrastructure for drivers to be confident to invest in an all-electric vehicle before 2030.	 The risk remains similar to previous updates as the demand to travel frequently exceeds the capacity of the road network. The new draft transport strategy focuses on sustainable methods of travel with new infarstructure to support this and will enable a more resilient travel network for the future, albeit with fewer cars.

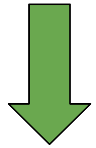
Fraud and corruption

Risk name	What are the risks	Controls or Mitigations	Comments
Fraud and corruption SCORE 9 Likelihood 3 Impact 3 Responsible Officer: Nicci Mills	the Council could lose valuable resource as a result of fraudulent activity	Internal Audit coverage of key systems vulnerable to fraud and corruption Anti-Fraud, Corruption, Bribery and Whistleblowing Policy and regular refresher training sessions The council subscribe to NFI, NAFN and NATIS which provides additional checks to identify fraudulent claims National Fraud Initiative matching data across all LA's, DWP and Immigration to identify fraud Robust system controls tested regularly	

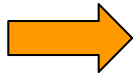
Regulation and Enforcement including Licensing and Anti-Social Behaviour

Risk name	What are the risks	Controls or Mitigations	Comments
Regulation and Enforcement including Licensing and Anti-Social Behaviour SCORE 8 Likelihood 2 Impact 4 Responsible Officer: Simon Thomas Marie Royle	there are pockets of crime and incidences of anti-social behaviour and nuisance from licensed premises. There is a risk that if the council does not regulate effectively the public will lose confidence in the council. Financial risk to the Council as failure to enforce regulations effectively could increase the amount of damage in the district from crime and vandalism which the council would then have an obligation to resolve.	clear licensing policy sets out the licensing objectives and the approach the council will take to issuing licenses adequate resourcing of the enforcement function ongoing programme to overhaul all the licensing policies Enforcement Team both proactive in planning ahead of known trends as well as reactive Intelligence is shared with partner agencies while intervening through design out or enforcement powers. Statutory responsibility to produce strategic needs assessment based on crime data and contextual information which informs a Community safety plan. This is coordinated by the Community Safety Team and supported by partner agencies	

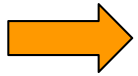
Information Security and Management

Risk name	What are the risks	Controls or Mitigations	Comments
Information Security and Management SCORE 8 Likelihood 2 Impact 4 Responsible Officer: Matthew Archer	A significant data protection breach could result in a substantial fine and potential harm to those affected.	A breach reporting process is in place which enables all data breaches to be investigated by the Information Governance Team. We have established practices in place to self-report to the Information Commissioner's Office when a significant breach occurs. Training is provided as part of our induction programme and ongoing professional development.	

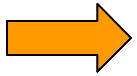
Business continuity (general)

Risk name	What are the risks	Controls or Mitigations	Comments
Business continuity (general) SCORE 8 Likelihood 2 Impact 4 Responsible Officer: Leo Whitlock	•loss of key building office space •loss or lack of key staff • loss of equipment or systems. • lack of fuel • loss of utilities, services, supplier or contractor • reduction in staff numbers could impact upon the council's ability to carry out statutory functions and weaken internal controls • industrial action by key or critical members of staff from within the council or its contractors	Business Continuity Policy for CCC is in place and is available via the CCC Emergency Planning Google Drive folder as well as the national Resilience Direct website. Service Recovery Plans for individual services as well as the overarching Business Continuity Plan for the whole council are regularly updated by services with the support of the Emergency Planning Officer. The council has already coped well with a loss of key office spaces, the loss or lack of key staff, a lack of fuel, industrial action at a key contractor, a reduction in staff numbers and a cyber incident which demonstrates controls are in place and are business continuity plans are effective.	

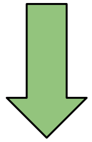
Canterbury losing world heritage status

Risk name	What are the risks	Controls or Mitigations	Comments
Canterbury losing world heritage status SCORE 6 Likelihood 2 Impact 3 Responsible Officer: Simon Thomas	The districts heritage assets are of crucial importance to the future success, health and well-being of this area and the investment that the status attracts from investors and businesses.	The World Heritage Site Management Plan is being revised. The plan will set out how the World Heritage Site will be managed in partnership with public, private and third sector partners. Current plans are World Heritage Site Management Plan, Canterbury District Heritage Strategy (2018), Heritage Strategy and Delivery Plan (2022) the Canterbury Conservation Area Management Plan (2022) and the Local Plan (Regulation 18) consultation draft (2022). Protecting and making the most of the district's heritage is at the heart of the council's bid to the government's Levelling Up Fund.	 The Conservation Area Management Plan has been completed. World Heritage Site Management Plan is currently being produced – public consultation will begin within the next couple of months.

Operational assets compliance

Risk name	What are the risks	Controls or Mitigations	Comments
Operational assets compliance SCORE 6 Likelihood 2 Impact 3 Responsible Officer: Alexis Jobson	Statutory failure in areas such as gas safe, legionella, electrical, asbestos and fire due to insufficient reporting measures Fines and/or corporate manslaughter (in the worst case scenario) were an incident to occur resulting in an HSE investigation	Policies and KPI'S on compliance all up to date. A significant number of properties are at risk of not being compliant due to lack of information on the property database and and lack of clarity within the leases. These are being checked on an individual basis and a decision made as to whether CCC take on the compliance.	 15.2.24 The management of compliance on our operational assets has now transferred to the Compliance and Building Safety Team (who manage the Housing compliance). The team is reviewing the data and working closely with the Property and legal teams to establish where responsibility lies for compliance with our operational properties.

Scale of property purchase and refurbishments

Risk name	What are the risks	Controls or Mitigations	Comments
Scale of capital development and regeneration projects SCORE 3 Likelihood 1 Impact 3 Responsible Officer: Richard Hall	Multiple projects using multiple contractors needs careful management and current resourcing/staffing shortages impact this. Not all elements of the construction programme are within our control, particularly where statutory undertakers are concerned. Delays outside of our control can impact on our ability to hit milestone dates.	Canterbury Riverside now in defect rectification period, so main construction work completed. Multiple units let - only 2 remain available. Kingsmead Field Housing now practically complete. Currently in 12 months defect rectification period. Contracts are ready to be echanged on the final maisonette. Kingsmead and Whitstable Leisure Centre capital works - Both are progressing with tight project oversight controls, including monthly Board meetings. Payment terms and processing of drawdown requests have been carefully structured to ensure expediency of processing so as not adversely affect contractor cashflows, given the turbulent economic state of the construction sector in terms of materials and labour cost volatility.	 Staffing/resourcing challenges across the Property & Regeneration Service have meant project management resources have been minimal and therefore residual staffing resource has been spread extremely thinly. Appointments have now been made though with the Regeneration Officer (Housing) and the Senior Regeneration Manager.

RAAC

Risk name	What are the risks	Controls or Mitigations	Comments
RAAC in public buildings and housing stock SCORE TBC Likelihood TBC Impact TBC Responsible Officer: Alexis Jobson	RAAC is a lightweight form of precast concrete, commonly used in buildings in the UK between the mid-1960s and the mid-1980s. It is mainly found in roofs, although occasionally in floors and walls. It is less durable than traditional concrete and there have been problems as a result, which could have significant safety consequences, that is, its liable to collapse. Lack of data on our properties means we are unable to clearly identify which properties contain RAAC.	Initial trawl of housing system has taken place to identify blocks built within the risk period with flat roofs. 78 blocks identified. 3 public toilets and 1 commercial building within the non-housing stock have been identified. Further checks on buildings via Fire Risk Assessments will need to take place to identify buildings at risk. Surveys are being commissioned of all these sites to check for the presence of RAAC and its condition. This will be followed up by remedial action where needed.	The three high rise housing blocks have been surveyed with no RAAC issues identified. Operational properties (General Fund) are due to be surveyed by the end of February by our internal surveyor. Additional external resource is being sourced to complete the surveys on the housing properties. These are classed as low risk so we are not anticipating finding any signficant issues but have set aside a capital budget for any remedials.

Building Control Resources

Risk name	What are the risks	Controls or Mitigations	Comments
Building Control Resources - staff	Lack of qualified Building Control Officers- this risk results from the recent introdcution of an intitaive by Government which requires all BC Officers to obtain assurance status.	STG- is monitoring the issue closely	Regular updates are provided at the quarterly STG Board meetings attended by Cllr Pat Edwards and Simon Thomas