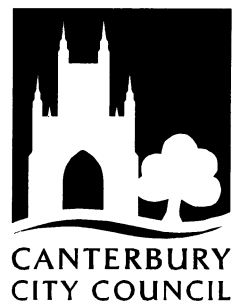


Statement of Accounts

for the Year Ended

31 March 2011

Ian Cooke CPFA
Head of Finance



THE STATEMENT OF ACCOUNTS

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THE STATEMENT OF ACCOUNTS

EXPLANATORY FOREWORD

1. INTRODUCTION

1.1. **Changes to the Statement of Accounts.** The key change is in relation to the adoption of full International Financial Reporting Standards (IFRS) in this year's statement, rather than the old UK GAAP basis under the Statement of Recommended Practice (SORP). This change (which has been backdated to 1 April 2009) has resulted in a complete revision of most of the financial statements under the Code of Practice on Local Authority Accounting in the UK 2010/11. Some further details of this change are set out in section 7 of this foreword below. The notes on page 66 to 69 of this statement explain the major implications of the change and also show the reconciliation between the figures in last year's statement and the restated figures under an IFRS basis..

1.2. Contents of Statement of Accounts

The council's accounts for the year 2010/11 are set out on pages 6 to 71.

They consist of:

The (main) financial statements:

- (a) the **Movements in Reserves Statement** – reconciles the Income and Expenditure account to the General Fund Balance.
- (b) the **Comprehensive Income and Expenditure Statement** – the council's main revenue account, covering income and expenditure on all services plus gains and losses for the year.
- (c) the **Balance Sheet** – which sets out the financial position of the council on 31 March 2011.
- (d) the **Cash Flow Statement** – which summarises the total movement of the council's funds.
- (e) Note 1 – **Statement of Accounting Principles**
- (f) The **remaining notes** to all these core financial statements.
- (g) The **Housing Revenue Account Income and Expenditure Account** – which shows income and expenditure on council housing.
- (h) The **Collection Fund Accounts** – which show income from council tax and business ratepayers and precept payments to Kent and Canterbury councils.
- (i) Note re **Transition to International Financial Reporting Standards (IRFS)**
- (j) The **Statement of Responsibilities** for the Statement of Accounts.

1.3 This Foreword (pages 1 to 5) provides a brief explanation of changes to the statement, the council's outturn financial position for 2010/11 and budget strategy for 2011/12.

2. BUDGET STRATEGY IN 2011/12

The council's budget preparations were developed over the course of the year in order to present estimates for 2011/12-2014/15 to Executive on 20 January 2011 and Full Council on 17 February 2011. This process included a series of councillor meetings (star chambers) with Heads of Service to assess unavoidable growth, and on proposals for savings to prepare for expected ongoing large reductions in government grant. It also took account of the feedback on budget consultation.

The revised strategic issues taken into account (as a result of the state of public finances and the Comprehensive Spending Review) were reported in November 2010 as:

- (a) Maintain the key corporate plan ambitions taking account of the new revised budget position.
- (b) Protect and maintain vital statutory services.
- (c) Optimise service performance having regard to performance indicator measures, unit cost information and other comparative data.
- (d) Review discretionary services
- (e) Review highly subsidised services and review charges to move more towards "user pays" rather than council taxpayer pays.

2. BUDGET STRATEGY IN 2011/12 (continued)

- (f) Make no general price inflation provision.
- (g) Maximise joint working opportunities by defining a clear vision and timetable for the next three years.
- (h) Achieve a balanced budget.
- (i) Take account of the policy on reserves and balances approved by Council in February 2007.
- (j) On a short-term basis, seek to ensure that the 2011/12 budget is as close to that in the 2010 budget projections as it can be, taking account of unavoidable growth and grant changes.

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

3. DIFFERENCES BETWEEN PLANS AND OUTTURN FOR 2010/11

The purpose of this statement is to give an indication in broad terms of the main differences between plans and outturn for 2010/11 for General Fund and Housing Services and the reasons for those differences.

3.1. General Fund Revenue Expenditure

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

	Original Estimate	Approved Estimate	Actual	Difference from Approved
	£ ' 000	£ ' 000	£ ' 000	£ ' 000
Expenditure				
Net expenditure (excluding Parish precepts)	22,549	22,549	21,558	-991
Add : Parish precepts	568	568	568	0
Total Expenditure	23,117	23,117	22,126	-991
Income				
Revenue support grant	1,678	1,678	1,678	-
NNDR allocation	11,553	11,553	11,553	-
Met by local council taxpayers	9,886	9,886	9,886	-
Total Income	23,117	23,117	23,117	-
Deficit / surplus(-) for the year (i.e. amount funded from balances)	0	0	-991	-991
Balance brought forward	1,632	2,509	2,509	-
Balance carried forward	1,632	2,509	3,500	-991

The actual surplus of £991k agrees with the figure in the Movement in Reserves Statement. The income agrees with the sources of finance at foot of p.8 & note 22 on p.45, except for the £38k share of the collection fund surplus shown on p.24.

The overall position for the financial year 2010/11 was as follows:

	£ ' 000
Original Budget (excluding Parish Precepts)	22,549
Actual expenditure	21,558
Net underspend	-991

Major variations between Actual and Approved Budget were:

Underspendings and additional income

	£ ' 000	£ ' 000
Corporate restructure savings	-289	
Reduced interest payable (-93), minimum revenue provision (-159)	-252	
Contingency not utilised(-143) & Superannuation backfunding (-95)	-238	
Concessionary fares savings	-230	
Housing benefit subsidy	-224	
Revenues and benefits staffing & other savings	-159	
Interest receipts	-149	
Staff savings etc-Central Services (-61) & ICT staffing (-81)	-142	
Staff savings - Finance division	-134	
		-1817

EXPLANATORY FOREWORD

(continued)

3.1. General Fund Revenue Expenditure (continued)

Major variations between Actual and Approved Budget (continued):		£ ' 000
Underspendings and additional income (con)	b/f from previous page	-1817
Beaney Museum - savings from delayed opening	-124	
On-Street parking - additional income	-115	
Pay Award claw-back	-68	
Whitstable harbour - contingency savings	-51	
IT Acquisitions	-51	
Legal & Democratic - staff savings	-48	
Other savings (Chief Executive Directorate)	-105	
Other savings (Directorates one and two (-172 & -168))	-340	
		<u>-902</u>
Offset by : Income shortfalls		-2719
Building control income shortfall	160	
Off-street parking income shortfall	139	
Commercial and Industrial estate rent income shortfall	126	
Development control and land charges income shortfall	111	
		<u>536</u>
and Overspendings		
Contribution to restructure reserve	360	
Housing and planning delivery grant cut	200	
Off-street parking - additional costs	110	
Document Imaging service contracts and General photocopiers	103	
Recharges to Non General Fund	98	
Contribution to recycling reserve (50), Leisure facilities reserve (40)	90	
Marlowe Theatre - pensions and trading loss	60	
Leisure review consultants	48	
Other (Chief Executive Directorate)	123	
		<u>1192</u>
NET UNDERSPEND		<u>-991</u>

3.2. Housing Revenue Expenditure

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

	Original Estimate	Approved Estimate	Actual	Difference from Original
	£ ' 000	£ ' 000	£ ' 000	£ ' 000
Expenditure				
Repairs and maintenance	4,509	4,509	4,417	-92
Supervision and management etc. (incl. rent, rates & contribution to reserves & bad debt provision)	6,038	6,038	5,778	-260
Housing subsidy payable	5,466	5,466	5,505	39
Interest and similar charges	462	512	414	-98
Depreciation charge plus MRR transfer	3,893	3,893	3,878	-15
Capital expenditure charged to revenue	2,852	1,856	1,855	-1
Total Expenditure	23,220	22,274	21,847	-427
Income				
Gross rent income	19,993	19,993	19,488	505
Charges for services and other income	1,718	1,718	1,579	139
Interest on mortgages and balances	56	56	48	8
Total Income	21,767	21,767	21,115	652
Surplus(-) / deficit for the year	1,453	507	732	225
Balance brought forward	3,739	2,326	2,326	-
Balance carried forward	2,286	1,819	1,594	225

Housing resource accounting introduced the need to charge depreciation on council dwellings which was initially covered by additional housing subsidy. The deficit of £1,594k agrees to p.59.
Note : MRR = major repairs reserve.

3.3. Capital Expenditure

Capital expenditure relates to spending on assets which last for more than one year. The city council spent £31,475,000 on capital schemes in 2010/11. This was financed by grants, capital receipts, revenue and borrowing.

The major capital spending was £10,186,000 on the Marlowe Theatre redevelopment, £2,731,000 on the Beaney Institute development, £3,444,000 re the purchase of 9 St George's Street and £987,000 on Whitstable Castle and gardens.

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

Capital Expenditure	Original Estimate	Approved Estimate incl. c/f's & addns.	Actual	Difference from Approved
	£ ' 000	£ ' 000	£ ' 000	£ ' 000
Housing capital	9,291	6,506	6,218	-288
Coast protection capital	745	780	733	-47
Other general fund capital	20,995	25,976	24,524	-1,452
Total Capital Expenditure	31,031	33,262	31,475	-1,787

4. FUTURE CAPITAL EXPENDITURE

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

5. BORROWING

The council's long-term debt outstanding increased from £25.5m in March 2010 to £39.5m in March 2011, whilst its investments (excluding accrued interest and those investments classed as cash equivalents) increased from £9.9m to £18.6m (see note 11.5) - an increase in net borrowing of £5.5m. 95% of the council's debt is with the Public Works Loan Board and all of its investments are managed internally. The average interest rate for new long-term borrowing in the year was 3.04%.

6. PENSIONS LIABILITY

Since 2004/05 the council has had to show in its accounts the value of its attributed share of the Kent County Council Pension Fund. This value is to be assessed by the actuary in accordance with very prescribed accounting rules. Note 30 shows that the total value of liabilities (i.e. future commitments from the fund) is council's net liability is £122.1m whereas the estimated assets are valued at £86.2m - a net deficit of £35.9m - which is being made up over a number of years by increasing the rates at which contributions are payable into the fund. The deficit has however decreased from £89.2 million to £35.9 million at 31 March 2011, a decrease of £53.5 million.

7. CHANGE IN ACCOUNTING POLICY

The Council has had to prepare these financial statements in accordance with International Financial Reporting Standards (IFRS) rather than the old UK GAAP basis under the Statement of Recommended Practice (SORP). This has been accompanied by a fundamental revision of nearly all of the financial statements under the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11" issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

7. CHANGE IN ACCOUNTING POLICY (con)

As these changes have to be applied retrospectively to 1 April 2009, it means that a revised balance sheet at 1 April 2009 and 31 March 2010 has had to be prepared which is set out on page 70. The previous Income and Expenditure Account has been replaced by a Comprehensive Income and Expenditure Statement (CIES) which also incorporates, at the end of this statement, the gains and losses which used to be contained in the Statement of Total Recognised Gains and Losses (STRGL). The previous Statement of Movement on the General Fund Balance has been replaced and incorporated into the Movement in Reserves Statement which shows the movement on all Reserves. The notes on page 66 to 69 explain the main changes under the transition to IFRS and the effect it has had on the 2009/10 CIES and Balance Sheet balances at 1 April 2009 and 31 March 2010.

8. NOTE RE BALANCE SHEET

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

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

9. IMPACT OF THE CURRENT ECONOMIC CLIMATE ON THE COUNCIL

Section 2 above has already outlined the budget strategy in 2011/12 and the main principles that were taken into account both for the 2011/12 budget and for the next three financial years to 2014/15. The estimates for 2011/12 are soundly based and therefore robust. As the projections are rolled forward, due to the predicted reductions in government grant as contained in the spending review, it becomes increasingly difficult to achieve sustainable medium term proposals. The council has therefore committed itself to a further programme of budget prioritisation and customer service reviews following consultation so as to make savings in 2012/13 and beyond and Heads of Service are committed to deliver further savings with the intention that these measures achieve reductions in gross budgets of at least the equivalent of 5% over the projection period.

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

10. CONCLUSION

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

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

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the council, analysed into "usable reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or Deficit on the Provision of Services line shows the true economic cost of providing the council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase or Decrease before Transfers to / from Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2009	1,632	11,612	5,790	188	10,396	1,359	30,977	343,854	374,831
Movement in reserves during 2009/10									
Surplus or (deficit) on provision of services	813	0	(7,562)	0	0	0	(6,749)	0	(6,749)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	(23,676)	(23,676)
Total Comprehensive Income and Expenditure	813	0	(7,562)	0	0	0	(6,749)	(23,676)	(30,425)
Adjustments between accounting basis and funding basis under regulations (Note 6)	(448)	0	4,128	0	(2,566)	237	1,351	(1,351)	0
Net Increase / (Decrease) before Transfers to Earmarked Reserves	365	0	(3,434)	0	(2,566)	237	(5,398)	(25,027)	(30,425)
Transfers to / from Earmarked Reserves	512	(482)	(30)	0	0	0	0	0	0
Increase / (Decrease) in Year	877	(482)	(3,464)	0	(2,566)	237	(5,398)	(25,027)	(30,425)
Balance at 31 March 2010 carried forward	2,509	11,130	2,326	188	7,830	1,596	25,579	318,827	344,406

MOVEMENT IN RESERVES STATEMENT (con.)

General Fund Balance	Earmarked Gen.Fund Reserves	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2,509	11,130	2,326	188	7,830	1,596	25,579	318,827	344,406
17,617	0	(64,348)	0	0	0	(46,731)	0	(46,731)
0	0	0	0	0	0	0	25,347	25,347
17,617	0	(64,348)	0	0	0	(46,731)	25,347	(21,384)
(17,489)	0	63,672	0	(3,026)	666	43,823	(43,823)	0
128	0	(676)	0	(3,026)	666	(2,908)	(18,476)	(21,384)
863	(807)	(56)	0	0	0	0	0	0
991	(807)	(732)	0	(3,026)	666	(2,908)	(18,476)	(21,384)
3,500	10,323	1,594	188	4,804	2,262	22,671	300,351	323,022

Balance at 31 March 2010

Movement in reserves during 2010/11

Surplus or (deficit) on provision of services

Other Comprehensive Income and Expenditure

Total Comprehensive Income and Expenditure

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

Net Increase / (Decrease) before Transfers to Earmarked Reserves

Transfers to / from Earmarked Reserves (Note 7)

Increase / (Decrease) in Year

Balance at 31 March 2011 carried forward

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2011

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

2009/10				2010/11		
Gross Expenditure	Income	Net Expenditure		Gross Expenditure	Income	Net Expenditure
As restated	As restated	As restated		£' 000	£' 000	£' 000
£' 000	£' 000	£' 000		£' 000	£' 000	£' 000
			Gross expenditure & income and net exp'd of continuing operations			
			Cultural, environmental & planning services			
4,041	-1,665	2,376	Culture and heritage	2,994	-1,119	1,875
5,152	-650	4,502	Recreation, sport and open spaces	5,486	-760	4,726
797	-197	600	Tourism	829	-339	490
1,804	-726	1,078	Coast protection	1,911	-849	1,062
3,277	-427	2,850	Waste collection and disposal	3,335	-443	2,892
5,434	-681	4,753	Other environmental services	5,270	-642	4,628
6,821	-2,660	4,161	Planning & development services	6,958	-3,174	3,784
			Highways & transport services			
586	-475	111	Highways	579	-286	293
9,045	-7,758	1,287	Parking services, public transport & harbour	7,674	-8,451	-777
			Housing services			
28,144	-21,021	7,123	Housing Revenue Account (HRA)	23,861	-21,060	2,801
0	0	0	Exceptional item-impairment from HRA valuation loss from redn.in social housing discount factor	61,179	0	61,179
39,082	-39,082	0	Housing benefits payments & administration	41,023	-41,159	-136
3,746	-3,057	689	Other housing services (non HRA)	2,908	-2,089	819
			Central services			
1,511	-553	958	Local tax collection costs	1,489	-572	917
10,605	-10,292	313	Council tax benefits	11,260	-11,036	224
710	-358	352	Other central services	672	-269	403
3,391	-838	2,553	Corporate and Democratic Core	4,637	-918	3,719
145	0	145	Non Distributed Costs - Pensions (Note 30)	0	-3,155	-3,155
0	0	0	- Exceptional item - Pension capitalised gains	0	-11,894	-11,894
740	0	740	- Impairment losses re non-operational assets	40	0	40
125,031	-90,440	34,591	Cost of Services	182,105	-108,215	73,890
			Other operating expenditure			
0	-388	-388	Net gain(-) / loss on sale of fixed assets	0	-262	-262
695	0	695	Parish council precepts & drainage board levy	693	0	693
641	0	641	Housing capital receipts cont. to govt. pool	301	0	301
			Financing and investment Income and Expenditure			
1,071	0	1,071	Interest payable on debt (Note 11.2)	1,284	0	1,284
0	-102	-102	Impairment of financial instruments (curr.yr.)	94	0	94
7,282	0	7,282	Pensions interest costs	7,907	0	7,907
0	-3,812	-3,812	Expected return on pension assets (Note 30)	0	-5,856	-5,856
6	-963	-957	Investment interest income (Note 11.2)	5	-566	-561
0	-3,656	-3,656	Rentals received on investment properties	0	-3,956	-3,956
626	0	626	Expenses incurred on investment properties	577	0	577
0	-479	-479	Changes in fair value of investment properties	3,196	0	3,196
303	-217	86	Surplus from trading operations (Note 21)	187	-231	-44
			Taxation and non-specific grant income			
0	-5,653	-5,653	Recognised capital grants & contributions	0	-7,375	-7,375
0	-9,570	-9,570	Income from the Collection Fund	0	-9,847	-9,847
0	-13,626	-13,626	General government grants (Note 8 & 22)	0	-13,310	-13,310
		6,749	Surplus (-) or Deficit on provision of services			46,731
		-18,538	Surplus (-) or deficit on revaluation of non current assets			13,008
		42,214	Actuarial gains (-) / losses on pension fund assets & liabilities (see note 30 to core financial statements for details)			-38,355
		30,425	Total Comprehensive Income and Expenditure			21,384

The main reason for the deficit this year is again that there is an impairment charge of £67,310k (£13,700k in 2009/10) which is reversed out in the movements statement. This is distributed in the cost of services, (predominantly the HRA) which mainly reflects the fall in values in council dwellings because of the reduction in the social housing index factor.

BALANCE SHEET AS AT 31ST MARCH

2009 As restated	2010 As restated		Notes	2011	
£ ' 000	£ ' 000	£ ' 000		£ ' 000	£ ' 000
257,093	266,164		Property, Plant & Equipment	9	
55,380	56,766		Council dwellings		188,690
28,048	27,682		Other land and buildings		55,837
2,819	3,183		Infrastructure assets		26,946
1,812	1,810		Vehicles, plant and equipment		3,035
8,443	16,059		Community assets		5,239
			Assets under construction		27,084
353,595		371,664			306,831
67,496		69,631	Investment property	9	69,338
98		43	Intangible assets	9	43
421,189		441,338	Sub-total		376,212
762		729	Long-Term Debtors	12	4,018
421,951		442,067	TOTAL LONG-TERM ASSETS		380,230
			CURRENT ASSETS		
33,138	9,929		Short-Term Investments	11.5	18,568
128	93		Inventories	14	110
9,670	17,511		Short-Term Debtors	13	12,675
-1,872	-2,030		Less : Provision for Bad Debts	13.1	-2,065
517	704		Payments in Advance		568
255	255		Assets held for sale	16	0
2,893	7,189		Cash and Cash Equivalents	15	2,010
44,729		33,651			31,866
466,680		475,718	TOTAL ASSETS		412,096
			CURRENT LIABILITIES		
11,436	10,981		Creditors	17	8,833
694	756		Deposits & receipts in advance		1,104
7,506	7		Short-term borrowing	11.1	68
0	1,250		Bank overdraft	15	2,667
-19,636		-12,994			-12,672
447,044		462,724	TOTAL ASSETS LESS CURRENT LIABILITIES		399,424
			LONG-TERM LIABILITIES		
845	637		Long-term creditors		424
20,668	25,688		Long-term borrowing	11.4	39,736
4,120	2,747		Capital grants receipts in advance	22	316
46,580	89,246		Liability related to defined benefit pension scheme	30	35,926
-72,213		-118,318			-76,402
374,831		344,406	NET ASSETS		323,022
£ ' 000		£ ' 000	USABLE RESERVES	18	£ ' 000
1,632	2,509		General Fund		3,500
5,790	2,326		Housing Revenue Account		1,594
11,612	11,130		Earmarked reserves	7	10,323
188	188		Major repairs reserve		188
10,396	7,830		Capital receipts reserve		4,804
1,359	1,596		Capital grants unapplied		2,262
30,977		25,579			22,671
			UNUSABLE RESERVES		
1,062	19,566		Revaluation reserve	19.1	5,770
391,555	390,111		Capital adjustment account	19.3	331,894
-2,071	-1,488		Financial instruments adjustment a/c	19.2	-1,294
-46,580	-89,246		Pensions reserve	19.4	-35,926
66	47		Deferred capital receipts	19.5	30
27	42		Collection fund adjustment account	19.6	4
-205	-205		Short-term accumulating absences a/c	19.7	-127
343,854		318,827			300,351
374,831		344,406	TOTAL RESERVES		323,022

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

CASH FLOW STATEMENT

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

2009/10 As restated		2010/11	
£' 000		£' 000	£' 000
6,749	Net surplus (-) or deficit on the provision of services		46,731
	Adjust net surplus or deficit on the provision of services for non-cash movements.		
-2,629	a. Less : Depreciation of fixed assets (general fund)	-2,785	
-2,727	Less : Depreciation of HRA fixed assets	-2,618	
-3,630	b. Less : Impairment of fixed assets (general fund)	-224	
-10,070	Less : Impairment of HRA assets	-67,086	
419	Less : Impairment of financial assets (investments)	627	
-56	c. Less : Amortisation of intangible fixed assets.	-30	
-158	d. Less : Increase in bad debt provision	-35	
407	e. Add/less : Decrease/increase in revenue creditors	2,033	
208	e. Add/less : Decrease/increase in long-term creditors	212	
-62	Add/less : Decrease/increase in deposits	-348	
	Items on an accruals basis (assets)		
7,841	f. Add/less : Increase/decrease in debtors	-4,836	
187	Add/less : Increase/decrease in payments in advance	-136	
-35	g. Add/less : Increase/decrease in inventories (stocks)	17	
	h. Pension liability		
-5,105	- Net charges made for retirement benefits in accordance with FRS17.	9,863	
4,653	- Employer's contributions payable to the Kent Pension Fund & retirement benefits payable direct to pensioners.	5,102	
-640	i. Carrying amount of non-current assets sold	-1,907	
	j. Other non-cash items charged to the net surplus or deficit on the provision of services.		
164	- Difference between amounts debited/credited to the I&E account and amounts payable/receivable re soft loans and premiums on the early repayment of debt.	-433	
479	- Movements in the value of investment properties	-3,196	
-1,163	- Increase/decrease in accrual on investments	114	
-136	- Increase/decrease in def'd premiums less discounts	-133	
-20	- Decrease/increase in accrual on borrowing	-148	
-2,478	- Accrual of capital grants & capital income	746	
5,653	- Capital grants & capital income applied	7,375	
39	- S106 grants received & applied (part of capital grants received in advance)	57	
-8,859			-57,769
	Adjust for items included in the net surplus or deficit on the provision of services that are investing activities		
1,028	Proceeds from the sale of property, plant and equipment.	2,170	
-7,900	Net increase / decrease in other liquid resources		
	- Council tax receipts paid to major preceptors less receipts	-8,679	
-1,753	- NDR receipts under / over paid to the government	887	
-8,625			-5,622
-10,735	Net flows from Operating Activities (c/f)		-16,660

CASH FLOW STATEMENT (con)

2009/10 As restated		2010/11	
£' 000		£' 000	£' 000
-10,735	Net flows from Operating Activities (b/f)		-16,660
	CAPITAL ACTIVITIES		
	CASH OUTFLOWS		
20,932	Purchase of property, plant and equipment, investment property and intangible assets.	25,588	
42	Other investment payments - Soft Loans	4,000	
20,974		29,588	
	CASH INFLOWS		
-1,028	Proceeds from sale of property, plant & equipm investment property and intangible assets.	-2,169	
-1,841	Capital grants received	-5,749	
-22,462	Proceeds from short-term and long-term investments	7,898	
-103	Other receipts from investing activities	-144	
-25,434	(Principal repayments of Soft Loans etc)	-164	
-4,460	INVESTING ACTIVITIES NET CASH FLOW		29,424
-15,195	NET CASH INFLOW/OUTFLOW BEFORE FINANCING		12,764
	FINANCING ACTIVITIES		
	CASH INFLOWS		
-5,000	Cash receipts of long-term borrowing	-13,900	
0	Cash receipts of short-term borrowing	-61	
7,900	Other receipts from financing activities	8,679	
1,753	- Council tax receipts paid to major preceptors less receipts - NDR receipts under / over paid to the government	-887	
4,653			-6,169
	CASH OUTFLOWS		
0	Repayments of long-term borrowing	0	
7,499	Repayments of short-term borrowing	0	
7,499	FINANCING NET CASH FLOW		0
-3,043	Net Increase (-) / Decrease in Cash Equivalents		6,595
-2,893	Cash and cash equivalents at 1st April (excl.accruals)		-5,936
-5,936	Cash and cash equivalents at 31st March (excl.accruals)		659

CASH AND CASH EQUIVALENTS

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

Balance 1.4.10	Balance (excl.accruals)	Balance 31.3.11	Movement in the year
£' 000		£' 000	£' 000
-6,931	Bank overnight deposits	-1,613	5,318
-255	Cash in hand	-395	-140
0	Money market funds	0	0
1,250	Bank overdraft	2,667	1,417
-5,936		659	6,595

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES

1.1 GENERAL PRINCIPLES

The accounting convention adopted is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The accounts are prepared in accordance with the following fundamental qualitative principles:

Relevance, Reliability, Comparability and Understandability.

The following accounting concepts have been given precedence:

- i) Materiality – i.e. is the financial information significant enough to justify its inclusion in the financial statement?
- ii) Going concern – the accounts are prepared on the assumption that the authority will continue in existence for the foreseeable future.
- iii) Accruals – the financial statements, other than the cash flow statement, have been prepared on an accrual basis i.e. non-cash effects of transactions are reflected in the accounting period in which those effects are experienced and not in the period in which any cash is received or paid.
- iv) Legislative requirements – the statements conform to the “Code of Practice on Local Authority Accounting in the United Kingdom 2010/11”, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This is recognised by statute [The Accounts and Audit Regulations 2003 and by sections 41 and 42 of the Local Government and Housing Act 1989] as representing proper accounting practices. This includes compliance with the Service Reporting Code of Practice 2010/11 (SeRCOP) supported by International Financial Reporting Standards (IFRS).

1.2 PROPERTY, PLANT and EQUIPMENT

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

1.2.1 Recognition and accruals

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

1.2.2 Valuation methods

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by The Royal Institution of Chartered Surveyors (RICS). Fixed assets are classified into groupings and have been valued on the following bases:

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

STATEMENT OF ACCOUNTING POLICIES (continued)

- infrastructure assets and community assets and assets under construction are included in the balance sheet at historical costs, net of depreciation. If historical cost information was not available, the current cost has been discounted back to the date of acquisition, using the retail price index.

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

1.2.3 Revaluations

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

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

1.2.4 Impairment

Assets are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

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

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

1.2.5 Disposals (and Capital Receipts)

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the government. (It is shown in the statements as "Contribution to housing pooled capital receipts"). The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be

STATEMENT OF ACCOUNTING POLICIES (continued)

used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

1.2.6 Depreciation

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

Depreciation is calculated according to the following policy:

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

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

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

1.3 INVESTMENT PROPERTY

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

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

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

STATEMENT OF ACCOUNTING POLICIES (continued)

1.4 INTANGIBLE FIXED ASSETS

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

Intangible assets are measured at cost as there is no active market against which to determine an alternative value. The balance is amortised (i.e. written-down) to the relevant service revenue account on a straight-line basis over 5 years. Intangible assets are therefore included in the balance sheet at historical costs, net of the amount written-down to revenue.

1.5 GOVERNMENT GRANTS AND CONTRIBUTIONS

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

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

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

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

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

Area Based Grant (ABG) is a general grant allocated by central government directly to local councils as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

STATEMENT OF ACCOUNTING POLICIES (continued)

1.6 CHARGES TO REVENUE FOR FIXED ASSETS

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

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

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

1.7 REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

1.8 FINANCIAL LIABILITIES (Borrowings)

1.8.1 Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For the borrowings that the council has, this means that the amount shown in the Balance Sheet is the outstanding principal repayable (plus accrued interest), and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

For the disclosure note regarding fair value (note 11.3), the council has based its fair value report on the comparable new borrowing / deposit rate for the same financial instrument from a comparable lender. A consistent approach has been applied to assets and liabilities.

1.8.2 Repurchase of Borrowing

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing loans, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the

STATEMENT OF ACCOUNTING POLICIES (continued)

loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The difference between the amounts charged to the Comprehensive Income and Expenditure Statement and the net charge required against the General Fund Balance, is a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

1.9 FINANCIAL ASSETS (Investments)

Financial assets are classified into two types:

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

1.9.1 Loans and receivables

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

In the case of investments with Icelandic banks, the amount shown in the Balance Sheet is the outstanding principal receivable plus accrued interest less impairment where the impairment has been calculated in accordance with the guidance set out in LAAP Bulletin 82. Additional disclosures are made in notes 11.4 and 11.5 to the core financial statements.

1.9.2 Soft Loans

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

1.9.3 Available-for-sale Assets

Available-for-sale assets are initially measured and carried in the Balance Sheet at fair value. Where the asset has fixed or determinable payments, annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or

STATEMENT OF ACCOUNTING POLICIES (continued)

determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

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

1.10 LEASES

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

1.10.1 The Authority as Lessee - Finance Leases

Where assets were acquired under finance leases, the leasing rentals payable are charged to revenue. The cost of the assets and the related liability for future rentals payable are not shown in the balance sheet (since the value outstanding is non material), but are disclosed in note 33 to the core financial statements.

1.10.2 The Authority as Lessee - Operating Leases

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

1.10.3 The Authority as Lessor – Operating Leases

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

1.11 CURRENT ASSETS AND LIABILITIES

1.11.1 Debtors and Creditors

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

STATEMENT OF ACCOUNTING POLICIES (continued)

1.11.2 Inventories (Stocks)

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

1.11.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 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.

1.12 EMPLOYEE BENEFITS

1.12.1 Benefits Payable during Employment

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

1.12.2 Termination Benefits

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

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

1.13 POST EMPLOYMENT BENEFITS (PENSION COSTS)

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

STATEMENT OF ACCOUNTING POLICIES (continued)

1.13 PENSION COSTS (continued)

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

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

STATEMENT OF ACCOUNTING POLICIES (continued)

1.13 PENSION COSTS (continued)

- vi) Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve.
- vii) Contributions paid to the Kent pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities, not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund (including accruals). The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

1.14 RESERVES

The council's reserves include earmarked reserves set aside for specific policy purposes, and balances which represent resources set aside for purposes such as general contingencies and cash flow management. The purposes of the council's earmarked reserves are explained in note 7 to the financial statements. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in the Comprehensive Income and Expenditure Statement. An appropriation is made from the reserve back to the General Fund Balance in the Movement in Reserves Statement so that there is no impact on council tax.

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

1.15 OVERHEADS and SUPPORT SERVICES (CENTRAL DEPARTMENTS' EXPENSES)

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

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

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

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

Non Distributed Costs – holds the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

STATEMENT OF ACCOUNTING POLICIES (continued)

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

1.16 CHANGES IN ACCOUNTING POLICIES

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

1.17 EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

1.18 CONTINGENT LIABILITIES

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

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

1.19 VAT

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

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

For 2010/11 the only accounting policy change that needs to be reported relates to FRS30 Heritage Assets. Note 31 sets out the disclosures required at this stage.

NOTES TO THE FINANCIAL STATEMENTS (con)

3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, 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:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The council has money deposited with the Heritable and Glitnir banks which are in administration. Regarding the Glitnir bank, a decision by the courts has been made that the council will have the status of a preferred creditor, although this decision is being appealed against. Full details are provided in note 11.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the council's balance sheet at 31st March 2011 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of actuaries is engaged to provide the council (and other Kent districts) with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £2,558k. However, the assumptions interact in complex ways. During 2010/11, the council's actuaries advised that the net pensions liability had decreased by £21,656k as a result of experience and decreased by £15,353k attributable to updating of the assumptions.

5. AUTHORISATION FOR ISSUE OF STATEMENT OF ACCOUNTS

The Statement of Accounts was authorised for issue on 30 June 2011 by the Director of Finance. Events taking place after this date are not reflected in the financial statements or notes.

6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

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

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

2009/10	<-----Usable Reserves----->						Movements in Unusable Reserves
	General Fund Balance	Earmarked Gen. Fund Reserves	Housing Revenue Account	Major Repair Reserve	Capital Receipts Reserve	Capital Grants Unapplied	
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Adjustments primarily involving the Capital Adjustment Account							
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement							
Depreciation/amortisation (excl HRA depn)	2,685						(2,685)
HRA Depreciation/amortisation			2,727				(2,727)
The difference of depreciation charged to HRA services over the Major Repairs Allowance element of housing			(1,102)	1,102			0
Impairment/revaluation losses (charged to I&E)	3,630		10,070				(13,700)
Capital grant and contributions applied	(5,653)						5,653
Revenue Expenditure Funded from Capital under Statute	712						(712)
Movement in market value of investment property	(479)						479
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	23		617				(640)
Capital grant and contributions unapplied credited to I&E	(237) re S106		0			237	0
Use of capital grants and contributions to finance capital expenditure						0	0
Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES	0		(1,028)		1,028		0
Repayments of Soft Loans & Hsg Act Advances					84		(84)
Use of capital receipts reserve to finance capital expenditure					(3,056)		3,056
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement							
Statutory Provision for the repayment of debt - (Minimum revenue provision)	(1,077)						1,077
HRA capital receipts to housing central pool	641		0		(641)		0
Revenue contribution to finance capital	(537)		(4,439)				4,976
Reversal of Major Repairs Allowance credited to the HRA			(2,727)	2,727			0
Use of the Major Repairs Reserve to finance new capital expenditure				(3,829)			3,829
Adjustment between CAA and Reval Reserve							34
							(1,444)
Adjustments involving the Revaluation Reserve							
Adjustment between CAA and Reval Reserve							(34)
Adjustments involving the Financial Instruments Adjustment Account							
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement							
Impairment of investments (charged to I&E)	(419)						419
Differences between statutory debits/credits and amounts recognised as income & expenditure in relation to financial instruments e.g. Soft loans	(39)		(125)				164
							583
Adjustments involving the Pensions Reserve							
Reversal of items relating to retirement benefits debited or credited to I&E	4,521		584				(5,105)
Employers contributions to pension schemes	(4,204)		(449)				4,653
							(452)
Adjustments primarily involving Deferred Capital Receipts							
Repayments of HRA Mortgages (to Def'd Cap Rects)					19		(19)
Adjustments involving Collection Fund adjustment account							
Amount by which council tax income adjustment included in I&E is different from the amount taken to the General Fund in accordance with regulation	(15)						15
Adjustments involving Short term compensated absences							
Amount by which officer remuneration charged to the I&E on an accruals basis is different from remuneration chargeable in the year in accordance with statute	0		0				0
TOTAL ADJUSTMENTS 2009/10	(448)	0	4,128	0	(2,566)	237	(1,351)

NOTES TO THE FINANCIAL STATEMENTS

7. TRANSFERS TO / FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2010/11.

Balance at 1 April As restated	Name of Reserve GENERAL FUND	Note	<-----Additions----->			<-----Reductions----->			Balance at 31 March
			Interest Receipts	Transfer from revenue	Receipts in year	Transfers between reserves	Transfer to revenue	Payments in year	
£ ' 000			£ ' 000	£ ' 000	£ ' 000	£ ' 000	£ ' 000	£ ' 000	
400	LABGI reserve	(a)					350	50	
179	Early retirement	(b)		48			49	178	
337	Computer/equipment	(c)		46		40		272	
700	Concessionary fares	(d)		600				1,300	
88	CCTV reserve	(e)		35				110	
167	Buildings maintenance	(f)		115				282	
331	Insurance reserve	(g)	3				46	288	
73	Office equipment	(h)	0	34		-40		111	
284	Liability insurance	(i)	3				20	267	
142	Regeneration	(j)		0			59	83	
632	Restructure reserve	(k)		580		-125	778	559	
211	Open spaces maintenance	(l)					17	194	
161	Benefits grant income	(m)					82	79	
166	Benefits overpayments	(n)		0			47	119	
2,236	VAT Recovered reserve	(o)			152	125	620	1,613	
255	Performance reward grant	(p)		150		0	145	260	
954	Kingsmead interest	(q)					300	654	
231	CPO Lodgements resv	(r)					115	116	
356	External interest	(s)	4				149	211	
-410	Premature Debt Rept	(t)		120				-290	
113	Emergencies reserve	(u)		21				134	
351	Whit.Harbour gen.resv	(v)		91			40	358	
435	Planning delivery grant	(x)		0			35	400	
300	Local plan inquiry	(y)	1	7				308	
98	Car park reserve	(z)					0	31	
1,650	Other Gen Fund reserves		0	504	40	0	276	1,890	
10,440	TOTAL GF RESERVES		11	2,351	192	0	3,128	289	
	Net movement in year							863	
	HRA RESERVES (Excluding Major Repairs Reserve)								
574	Subsidence reserve	(w)		50				624	
116	Other HRA reserves		0	0	60	0	0	122	
690	TOTAL HRA RESERVES		0	50	60	0	0	746	
	Net movement in year							-56	
11,130	TOTAL RESERVES		11	2,401	252	0	3,128	343	
	Net movement in year							807	

Notes:

The restated balance at 1st April 2010 under IFRS of £11,130k reconciles to the balance under SORP of £13,101 less the balance relating to Section 106 (Planning) receipts of £1,971k which has been transferred as follows: £1,597k to Capital Grants Unapplied and £374k to Capital Grants Receipts in Advance.

- (a) The Local Authority Business Growth Incentive (LABGI) reserve holds the LABGI grant normally received in February each year to be used in the following year's budget plus the balance of grant received in 2008/09. This was assessed on the amount of growth in the rateable value of businesses in the area above a standard increase. In order to cushion the budget impact, because the grant ended in 2008/09, the balance of the reserve is being credited to revenue over the next three years, at a reduced level each year.
- (b) The Early retirement reserve was set up in 1999/2000 to finance the additional payments required by the Kent superannuation fund as a result of early retirement following the council's various management
- (c) The Computer/equipment reserve was created in 1995/96 to finance computers and equipment which need replacing.
- (d) The concessionary fares reserve was created in 2009/10 to replace the 2008/09 creditor provision for the bus company appeal re 2008/09 plus further likely appeals in 2009/10 and 2010/11.

NOTES TO THE FINANCIAL STATEMENTS

7. TRANSFERS TO / FROM EARMARKED RESERVES (con)

- (e) This reserve is used to finance CCTV equipment.
- (f) The Buildings maintenance reserve is used to finance the annual repair budget for all council buildings.
- (g) The Insurance reserve is used to meet claims on the council for which external insurances have not been effected. This reserve covers three broad areas of insurable risks:
- (i) Professional indemnity; (covers losses resulting from professional negligence)
 - (ii) All risks cover for equipment under £5,000 in value
 - (iii) Sold council houses - latent defects (i.e. defects discovered at a later date which could not reasonably have been identified at the time of sale).
- The current balance on the reserve held for each risk is roughly in the proportions 70%, 10%, 20%, so e.g. approximately £200,000 is held to cover professional indemnity (which could involve major sums).
- (h) This reserve funds the rolling programme of office equipment renewals.
- (i) The Liability insurance reserve covers public liability claims under £5,000. (Claims over £5,000 being covered by external insurance). Claims tend to take many years before settlement is agreed, therefore the balance has to cover prior year outstanding claims and future liabilities.
- (j) This reserve was created in 2005/06 to be used for regeneration projects.
- (k) This reserve was created in 2008/09 from part of the VAT refund to cover restructure costs.
- (l) The Open spaces maintenance reserve holds the balance from commuted payments from developers (under section 106 agreements) based on 20 years maintenance costs of spaces taken over by the council. The balance for each development is transferred to revenue over 20 years.
- (m) The Benefits grant income reserve holds additional housing benefit subsidy income arising from the final claim being greater than assumed in the accounts. The balance is being transferred back to revenue.
- (n) The Benefits overpayment reserve was created in 2004/05 to hold the excess of overpayments which have been identified by the benefits computer system compared with the balance in the accounts. The balance is being credited back to revenue over a number of years, starting from 2006/07.
- (o) This reserve was created in 2008/09 from the VAT refund from HM Revenue and Customs to support the revenue budget over the next few years and to cover any impairment on investments.
- (p) This reserve was created in 2008/09 to hold the performance reward grant that was due re 2008/09 although neither the grant or spend will take place until 2009/10 or 2010/11.
- (q) The Kingsmead interest reserve holds the interest earned on the Kingsmead and other major capital receipts in order to fund the revenue budget from 2009/10, as agreed at full council 21 Feb 2008. With falls in interest rates in 2009, further transfers to the reserve were suspended, and the balance is now being transferred back to revenue at £300k pa from 2010/11.
- (r) The CPO lodgements reserve was created in 2006/07 from amounts recovered from the land registry 12 years after the original deposit was made. It is being credited back to revenue over four years from 2008/09.
- (s) The External interest reserve, created in 1997/98 and increased by investment interest earned above budget from good fund management performance, is now being credited back to revenue over a number of years.
- (t) The premature debt repayment identifies the premature repayment of the financing of the LAMP project, which is being paid back from land charges receipts over four years. The balance is offset against other reserves.
- (u) The emergencies reserve is to be used in the case of any civil emergencies.
- (v) The Whitstable Harbour general reserve holds any surpluses from the ring-fenced account to spend on the Harbour in future years.
- (w) The subsidence reserve was created in 2005/06 to cover liabilities arising from subsidence of housing stock properties now that they are not covered within the council's insurance policy.
- (x) This reserve holds the balance of planning delivery grant, not used in the year of receipt, for future projects and ongoing commitments.
- (y) The local plan enquiry reserve evens out the impact of costs which arise on a periodic basis for the local plan enquiry.
- (z) This reserve was created in the 2006/07 budget strategy to finance work on the council's car parks.

8. GENERAL GOVERNMENT GRANTS

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

2009/10		2010/11
-2,420	Revenue support grant	-1,678
-10,486	Distribution from non-domestic rate pool	-11,553
-64	LABGI grant	0
-73	Area based grant	-79
-583	Housing & planning delivery grant	0
-13,626	Total of General Government Grants	-13,310

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

Gross book value at 1 April	2010 / 11	Additions	Disposals	Revaluations included in Reval Reserve	Impairments included in deficit on services	Reclassifications	Gross book value at 31 March
£' 000		£' 000	£' 000	£' 000	£' 000	£' 000	£' 000
268,853	Property, Plant & Equipment						
	Council dwellings	6,218	-188	-16,528	-67,086	0	191,269
59,447	Other land & buildings	292	-938	815	-185	-12	59,419
9,385	Vehicles, plant, furniture & equipment	879	-309	0	-27	0	9,928
40,489	Infrastructure	170	0	0	-11	0	40,648
1,823	Community assets	0	0	7	173	3,250	5,253
16,059	Under construction	14,437	0	0	-174	-3,238	27,084
396,056	TOTAL	21,996	-1,435	-15,706	-67,310	0	333,601
					Change in valuation		
69,631	Investment properties	3,447	-544	0	-3,196	0	69,338
	Intangible assets						
351	Software licences	30	-14	0	0	0	367
466,038	TOTAL	25,473	-1,993	-15,706	-70,506	0	403,306

Net book value at 1 April	2010 / 11	Depreciation					Net book value at 31 March
		Accum. 1 April	Charge for year	Written out on disposals	Written out to reval'n. reserve	Accum. 31 March	
£' 000		£' 000	£' 000	£' 000	£' 000	£' 000	£' 000
	Property, Plant & Equipment						
266,164	Council dwellings	2,689	2,579	0	-2,689	2,579	188,690
56,766	Other land & buildings	2,681	928	-18	-9	3,582	55,837
3,183	Vehicles, plant, furniture & equipment	6,202	1,000	-309	0	6,893	3,035
27,682	Infrastructure	12,807	895	0	0	13,702	26,946
1,810	Community assets	13	1	0	0	14	5,239
16,059	Under construction	0	0	0	0	0	27,084
371,664	TOTAL	24,392	5,403	-327	-2,698	26,770	306,831
69,631	Investment properties	0	0	0	0	0	69,338
	Intangible assets						
43	Software licences	308	30	-14	0	324	43
441,338	TOTAL	24,700	5,433	-341	-2,698	27,094	376,212

NOTES TO THE FINANCIAL STATEMENTS

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

Comparative movements in 2009/10 - as restated under IFRS

Gross book value at 1 April	2009 / 10	Additions	Disposals	Revaluations included in Reval Reserve	Impairments included in deficit on services	Reclassifications	Gross book value at 31 March
£' 000		£' 000	£' 000	£' 000	£' 000	£' 000	£' 000
259,690	Property, Plant & Equipment	8,592	-615	11,243	-10,057	0	268,853
57,569	Council dwellings	365	0	4,223	-3,000	290	59,447
8,661	Other land & buildings	1,171	-489	42	0	0	9,385
39,938	Vehicles, plant, furniture & equipment	578	0	0	-27	0	40,489
1,823	Infrastructure	0	0	0	0	0	1,823
8,443	Community assets	8,727	0	0	-616	-495	16,059
	Under construction						
376,124	TOTAL	19,433	-1,104	15,508	-13,700	-205	396,056
67,496	Investment properties	1,451	0	0	479	205	69,631
389	Intangible assets	0	-38	0	0	0	351
	Software licences						
444,009	TOTAL	20,884	-1,142	15,508	-13,221	0	466,038

Net book value at 1 April	2009 / 10	Depreciation					Net book value at 31 March
		Accum. 1 April	Charge for year	Written out on disposals	Written out to reval'n. reserve	Accum. 31 March	
£' 000		£' 000	£' 000	£' 000	£' 000	£' 000	£' 000
257,093	Property, Plant & Equipment	2,597	2,689	0	-2,597	2,689	266,164
55,380	Council dwellings	2,189	925	0	-433	2,681	56,766
2,819	Other land & buildings	5,842	823	-463	0	6,202	3,183
28,048	Vehicles, plant, furniture & equipment	11,890	917	0	0	12,807	27,682
1,812	Infrastructure	11	2	0	0	13	1,810
8,443	Community assets	0	0	0	0	0	16,059
	Under construction						
353,595	TOTAL	22,529	5,356	-463	-3,030	24,392	371,664
67,496	Investment properties	0	0	0	0	0	69,631
98	Intangible assets	291	56	-39	0	308	43
	Software licences						
421,189	TOTAL	22,820	5,412	-502	-3,030	24,700	441,338

9.1 DEPRECIATION

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

NOTES TO THE FINANCIAL STATEMENTS

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

The existing depreciation calculation has been compared with a revised depreciation charge using component accounting. For the General Fund, the amount involved was only £32k and so has not been implemented this year. However for the HRA the amount involved was an additional £667k (£2618k less £1951k) and so the component accounting calculation has been implemented for the HRA. It should be noted that due to the fall in HRA property value, the depreciation would otherwise have fallen by £776k (from £2727k to £1951k).

9.2. CAPITAL COMMITMENTS

The following significant capital contracts have been entered into by the council at 31 March 2011 which involve commitments in 2011/12 and beyond:

Scheme	Estimate 2011/12	Estimate 2012/13
	£' 000	£' 000
New Marlowe Theatre contract	3,085	0
Beaney development	4,901	0

9.3. REVALUATIONS

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

	Date of last valuation	Basis of valuation	Internal Valuer
Operational assets-			
Council dwellings	March 2011	A	Martin Bovingdon , FRICS
Other land & buildings	April 05 - March 2011	B	Martin Bovingdon , FRICS
Investment properties	March 2011	C	Martin Bovingdon , FRICS

Basis of valuation

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

9.4. INTANGIBLE ASSETS

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

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

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

9.5. INVESTMENT PROPERTIES

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

2009/10		2010/11
£ ' 000		£ ' 000
3,656	Rental income from investment property	3,956
-626	Direct operating expenses incurred on investment property	-577
3,030	Net gain	3,379

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

NOTES TO THE FINANCIAL STATEMENTS

10. CAPITAL EXPENDITURE and CAPITAL FINANCING

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

2009/10 As restated	Capital Expenditure and Financing	2010/11	
£ ' 000		£ ' 000	£ ' 000
28,584	Opening Capital Financing Requirement		32,964
	Capital Expenditure in year:		
19,431	Property, plant and equipment	21,996	
1,452	Investment properties	3,447	
0	Intangible assets	30	
2,508	Revenue expenditure funded from capital under statute (see note 10.1 below)	2,002	
42	Long term debtors	4,000	
23,433			31,475
	Sources of Finance		
-3,056	Capital receipts	-5,038	
-6,115	Government grants and other contributions	-6,480	
-8,805	Revenue & reserves	-5,957	
-1,077	Revenue provision for repayment of loans (MRP)	-1,122	
-19,053			-18,597
32,964	Closing Capital Financing Requirement		45,842
	Explanation of movements in year		
0	Increase in underlying need to borrow (supported by government financial assistance)		0
4,380	Increase in underlying need to borrow (unsupported by government financial assistance)		12,878
4,380	Increase in Capital Financing Requirement		12,878

10.1 REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

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

Net Exp'd 2009/10 As restated	Item of expenditure	Gross Exp'd	Govt. Grants	Net Exp'd 2010/11
£' 000		£' 000	£' 000	£' 000
320	Disabled facilities and improvement grants	1,051	-783	268
57	Historic building grants	29	0	29
335	Other including parish council grants	922	-694	228
712	TOTAL	2,002	-1,477	525

The financing of this expenditure was: capital receipts £490k, grants £1,477k, revenue and reserves £35k. Adding the £1,477k to the £5,003k non-refcus grants (detailed in note 22b), reconciles to the total capital grants applied to finance capital expenditure £6,480k (see table above).

NOTES TO THE FINANCIAL STATEMENTS

11. FINANCIAL INSTRUMENTS

11.1 FINANCIAL INSTRUMENTS BALANCE

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

31 March 2010			31 March 2011	
Long-Term	Current		Long-Term	Current
£' 000	£' 000		£' 000	£' 000
25,688	7	Borrowings	39,736	68
0	0	Financial liabilities at amortised cost (including the £2,000k soft loan received from KCC)	0	0
25,688	7	Total Borrowings	39,736	68
0	10,507	Creditors	0	8,417
0	10,507	Creditors classed as financial liabilities (i.e.excluding statutory debts such as council tax)	0	8,417
0	10,507	Total Creditors	0	8,417
0	9,929	Investments	0	18,568
0	0	Loans and receivables	0	0
0	9,929	Total Investments	0	18,568
0	14,780	Other Current Assets	0	9,840
0	704	(Net) Debtors classed as Financial assets (i.e.excluding statutory debts such as council tax)	0	568
0	7,189	Payments in advance	0	2,010
0	22,673	Total Other Current Assets	0	12,418
782	95	Soft loans	3,972	0
		Soft loans provided - see table below		

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

Borrower	Original Loan	Balance at 1.4.2010	Advances in 2010/11	Repayments in 2010/11	Balance at 31.3.2011	Fair value at 31.3.2011
	£' 000	£' 000	£' 000	£' 000	£' 000	£' 000
Whitstable Town FC	17	3		1	2	2
Polo Farm	40	4		4	0	0
Herne Bay Bowling Club	44	23		3	20	17
Canterbury Bowling Club	100	55		5	50	40
Whitstable Bowling Club	30	6		3	3	3
Active Life	600	600		63	537	425
Northgate Ward Dev. Group	20	8		3	5	5
Polo Farm	135	92		9	83	68
Horsebridge	50	45		5	40	34
Thanington Resource Centre	42	42		0	42	35
Kent County Cricket Club	4,000	0	4,000	32	3,968	3,343
	5,078	878	4,000	128	4,750	3,972

(see also note 12)

When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year - the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

NOTES TO THE FINANCIAL STATEMENTS

11.2 FINANCIAL INSTRUMENTS GAINS / LOSSES

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

	Financial Liabilities (Borrowing)	Financial Assets (Investments)		Total
	Liabilities measured at amortised cost	Loans and receivables	Available-for -sale assets	
	£' 000	£' 000	£' 000	£' 000
Interest payable and similar charges				
Interest payable	-1,284	0	0	
Impairment of financial assets (investments)	0	-94	0	
Losses on derecognition	0	0	0	
Interest payable and similar charges	-1,284	-94	0	-1,378
Interest and investment income				
Interest income (received)	0	317	0	
Interest income (impaired)	0	249	0	
Gains on derecognition	0	0	0	
Interest and investment income	0	566	0	566
Net gain / loss (-) for the year	-1,284	472	0	-812

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

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

i) For PWLB Loans, the new borrowing rate has been used as the discount factor (as opposed to the premature repayment rate). This is because the premature repayment rate includes a margin which represents the lender's profit as a result of rescheduling the loan, which is not included in the fair value calculation. Relevant interest rates at 31 March 2011 were between 2.58% and 5.31%, depending on the maturity date of the loan.

ii) No early repayment or impairment is recognised.

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

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

31 March 2010			31 March 2011	
Carrying amount	Fair value		Carrying amount	Fair value
£' 000	£' 000		£' 000	£' 000
		Long-Term Borrowing		
25,684	26,110	Financial liabilities - PWLB Loans	37,731	35,734
4	4	Financial liabilities - Other bonds and mortgages	2,005	1,681
		Short-Term Borrowing		
7	7	Financial liabilities - Temporary Loans	68	68

The fair value is lower than the carrying amount because the council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the rates available for similar loans at the Balance Sheet date, although there are still three old loans totalling £2.5m with rates of 7.625%, 10.25% and 10.5% which account for a fair value of £1,434k higher than the carrying amount. Other than these three, the commitment to pay interest below current market rates reduces the amount that the authority would have to pay if the lender requested or agreed to early repayments of the loans. (It should be noted that the council's average interest payable rate was only 3.97% in 2010/11 compared to 9.22% in 2002/03).

NOTES TO THE FINANCIAL STATEMENTS

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

31 March 2010			31 March 2011	
Carrying amount	Fair value		Carrying amount	Fair value
£' 000	£' 000	Investments	£' 000	£' 000
9,929	9,936	Loans and receivables - Banks and Building Societies	18,568	18,593
0	0	Available-for-sale financial assets - Externally Managed	0	0
9,929	9,936		18,568	18,593

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

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

11.4 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

- i) Credit risk - the possibility that other parties might fail to pay amounts to the council
- ii) Liquidity risk - the possibility that the council might not have funds available to meet its commitments to make payments
- iii) Re-financing risk - the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms
- iv) Market risk - the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements.

The council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management in relation to treasury management is carried out by the Treasury and Corporate Finance Manager in consultation with other Finance staff, under policies approved by the council in the annual treasury management strategy. The council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

NOTES TO THE FINANCIAL STATEMENTS

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

Credit risk

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

In 2008/09 for the first time, the Council experienced defaults by two of the financial institutions with whom investments had been made. These were the Heritable Bank, a UK bank owned by an Icelandic parent, and the Glitnir Bank, an Icelandic bank. The Council had £4m invested with the Heritable, of which 50% has now been returned and a further 35% is expected to be returned, and £2m invested with Glitnir, all of which is expected to be returned since local authorities are considered to have priority status, although this is disputed by the Glitnir winding-up committee. This status is now being determined by the courts in Iceland with the district court finding in our favour; the impairment with regard to the investment with Glitnir will be substantially greater if the supreme court reverses the district court's decision.

Liquidity risk

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

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

All sums owing to the council (£15m) are due to be paid within one year.

Refinancing and Maturity risk

As the council has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk could have been that it would be bound to replace a significant proportion of its borrowings at a time of unfavourable interest rates. However £23.8m 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 2010	Source of loan	Range of interest rates payable (%)	31 March 2011
£ ' 000			£ ' 000
25,684	Public Works Loan Board	1.86 - 10.50	37,731
4	Other bonds & mortgages	2 - 5.625	2,005
25,688	TOTAL : LONG-TERM BORROWING		39,736
£ ' 000	An analysis of loans by maturity is:		£ ' 000
0	Maturing in 1-2 years		71
5,000	Maturing in 2-5 years		13,341
0	Maturing in 5-10 years		2,478
20,688	Maturing in over 10 years		23,846
25,688	TOTAL : LONG-TERM BORROWING		39,736

NOTES TO THE FINANCIAL STATEMENTS

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

Market risk

Interest rate risk

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

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

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

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

£23.8m of the council's borrowing is fixed at periods in excess of 10 years and therefore the market rate risk is mainly confined to the £13m of borrowings maturing in the next five years. The council's investments are held at fixed rates and are due to mature within 1 year. The interest rate risk relates to the reinvestment of these deposits when they mature, if interest rates should fall even further and the refinancing of the shorter-date borrowings when they mature if rates should have risen by then.

The council obtained £313,000 interest on its investments in 2010/11 (£632,000 in 2009/10) - an average interest rate of 1.11% (2.20% in 2009/10). If the average rate had been 1% more (i.e. 2.11%) then the council would have received £282,000 more income.

NOTES TO THE FINANCIAL STATEMENTS

11.5 INVESTMENTS

Carrying amount at 31 March 2010	Investment type	Carrying amount				Fair Value at 31 March 2011
		Nominal Value	Accrued Interest	Impairment	Total 31 March 2011	
£ ' 000	<u>Internally Managed</u>	£ ' 000	£ ' 000	£ ' 000	£ ' 000	£ ' 000
3,911	Icelandic Banks - fixed deposits	3,906	0	-472	3,434	3,434
6,018	Other Banks - fixed deposits	15,000	134		15,134	15,159
0	Building Societies	0	0	0	0	0
9,929	TOTALS	18,906	134	-472	18,568	18,593

The impairment of £472k (excluding interest) relates to net investments of £1.9m with the Heritable Bank, a U.K. bank with an Icelandic parent bank, and £2m with the Glitnir Bank, an Icelandic bank. The level of impairment has been calculated using the methodology specified by CIPFA which shows the impairment of the original investment to be £315k. To this is added estimated interest after maturity, at the contracted rates shown below, of £982k which is fully impaired. These amounts have been further impaired by a discounted cashflow calculation to £1,454k (gross of interest). Under current Icelandic law, local authority deposits with Glitnir should have priority status above other creditors (this has been agreed by the Icelandic District Court) and CIPFA recommends that local authorities should adopt this approach in the accounts. However, the winding-up committee has not yet recognised this, and the issue is still the subject of legal action in Iceland with an appeal being made to the Supreme Court.

INVESTMENTS IN ICELANDIC BANKS

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing, Singer and Friedlander went into administration. The authority originally had £6m deposited across 2 of these institutions, with varying maturity dates and interest rates. Since then, the council has received repayments from the administrators of the Heritable Bank totalling £2,094k. The details of the investments are as follows:

Date Invested	Bank	Maturity Date	Amount Invested (net of receipts)	Interest Rate	Carrying Amount	Gross Impairment	Impairment excluding interest
			£'000		£'000	£'000	£'000
18/12/07	Heritable Bank Ltd	17/12/08	949	6.06%	699	577	250
9/01/08	Heritable Bank Ltd	08/01/09	478	5.56%	348	276	130
15/1/08	Heritable Bank Ltd	15/1/09	479	5.45%	348	274	131
14/3/08	Glitnir Bank	13/3/09	2,000	6.00%	2,039	327	-39
	Total		3,906		3,434	1,454	472

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

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

Heritable Bank

Heritable Bank is a UK registered bank under Scottish law. The company was placed in administration on 7 October 2008. Creditor progress reports issued by the administrators, Ernst and Young, have indicated that the return to creditors is projected to be 85p in the £. The council has already received a total of £2,093,873 (representing a dividend of 50.11%) in respect of the Heritable Bank during the financial years 2009/10 and 2010/11. The council has therefore decided to recognise an impairment based on it recovering a further 35p in the £. It is anticipated that payments will now be made at regular intervals until a final sale of assets after the books have been run down during 2012. Therefore in calculating the impairment the council has assumed that a dividend of 5% will be paid on the following dates: April, July and October 2011, and January, April, July and October 2012.

NOTES TO THE FINANCIAL STATEMENTS

11.5 INVESTMENTS (cont)

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

Glitnir Bank hf

Glitnir Bank hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008, its domestic assets and liabilities were transferred to a new bank (new Glitnir) with the management of the affairs of Old Glitnir being placed in the hands of a resolution committee. Old Glitnir's affairs are being administered under Icelandic law. Old Glitnir's latest public presentation of its affairs was made to creditors on 12 May 2011 and can be viewed on its website.

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

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

The council has therefore decided to recognise an impairment based on it recovering the full amount of principal and interest up to 14 November 2008 in the future as recommended by CIPFA in their LAAP bulletin 82 (update no. 4). The impairment therefore reflects the loss of interest to the authority until the funds are repaid.

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

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

Both banks

The impairment loss recognised in the Income and Expenditure Account in 2008/09, £1,463,000, was calculated by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the authority until monies are recovered. This was adjusted in 2009/10 reducing the impairment by £102,000 (adjusted for a rounding difference of £1,000) to take account of monies received in the year.

The impairment loss of £1,454,000 for 2010/11 has been calculated in a similar fashion, resulting in an increase of £94,000 above last year's impairment.

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

The council had taken advantage of the Capital Finance Regulations to defer the impact of the impairment on the General Fund, but these regulations no longer apply. Therefore the impairment of £472,000 has been transferred from the Financial Instruments Adjustment Account to the General Fund. As planned, this has been offset by a transfer of equal value from the VAT windfall reserve which has been set aside for this purpose. The impairment of £249,000 relates to interest which has been borne in full by the General Fund.

NOTES TO THE FINANCIAL STATEMENTS

12. LONG-TERM DEBTORS

Balance at 1 April	Category	Advances during year	Repaymt. during year	Write-Offs	Balance at 31 March
£ ' 000	Soft Loans (Miscellaneous Loans)	£ ' 000	£ ' 000	£ ' 000	£ ' 000
878	- Actual amount outstanding	4,000	-128	0	4,750
-212	- Adjustment to fair value	-624	58	0	-778
666	Soft Loans - Fair value	3,376	-70	0	3,972
47	Mortgages	0	-17	0	30
16	Housing Act Advances	0	0	0	16
729	TOTAL	3,376	-87	0	4,018

The true balance for Soft Loans at 31 March 2011 of £4,750,000 has been reduced downwards by £778,000 (contra the Financial Instruments adjustment account) to a "fair value" of £3,972,000 using a discounted cash flow calculation, to reflect the fact that the repayments are interest free (except for the loan to Kent County Cricket Club).

13. SHORT-TERM DEBTORS

31 March 2010	Category	31 March 2011
£ ' 000		£ ' 000
2,771	Sundry debtors	2,612
8,925	Government departments	5,675
2,368	Other local authorities	863
323	Council taxpayers	322
801	Housing rents	751
0	Employee loans	0
2,323	Other	2,452
17,511	TOTAL	12,675

Note: Council taxpayers show only the council's share of arrears. NDR ratepayers are nil to reflect that all income is due to the government. The net debtor due from the government is shown under government departments. This figure has decreased from £2,135,000 to £1,076,000. The figure due from D.W.P. re Housing Benefits has decreased from £4,000,000 to £2,053,000 and from the Environment Agency from £854,000 to nil, offset by an increase from the Heritage Lottery Fund from £1,350,000 to £2,085,000. Other local authority debtors includes the debtor due from KCC for the Marlowe Theatre which has fallen from £1,000,000 to nil.

13.1 PROVISION FOR BAD DEBTS

31 March 2010	Category	31 March 2011
£ ' 000		£ ' 000
165	Council taxpayers	163
644	Housing	607
685	Benefits	829
536	PCN's and other provisions	466
2,030	TOTAL	2,065

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

NOTES TO THE FINANCIAL STATEMENTS

14. INVENTORIES (STOCKS IN HAND)

31 March 2010	Category	31 March 2011
£ ' 000		£ ' 000
15	Tourist information centres	20
78	Other	90
93	TOTAL	110

15. CASH AND CASH EQUIVALENTS

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

31 March 2010	Balance (incl. accruals)	31 March 2011
£' 000		£' 000
-6,934	Bank overnight deposits	-1,615
-255	Cash in hand	-395
-7,189		-2,010
1,250	Bank overdraft	2,667
-5,939		657

16. ASSETS HELD FOR SALE

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

31 March 2010		31 March 2011
£' 000	Balance outstanding at start of year	£' 000
255	- Eddington Nursery	255
0	Asset sold	-255
255	Balance outstanding at end of year	0

17. CREDITORS

31 March 2010 as restated	Category	31 March 2011
£ ' 000		£ ' 000
3,914	Sundry creditors	3,035
2,593	- Revenue Items	2,510
1,123	- Capital Items	991
	Government departments	
2,002	Other local authorities	1,046
49	- Revenue Items	17
186	- Capital Items	167
289	Council taxpayers	250
825	Housing rents	817
	Other	
10,981	TOTAL	8,833

Council taxpayers show only the council's share of prepayments. Other local authorities includes major preceptors share of net council tax arrears and credits which has fallen from £468,000 to £82,000. NDR ratepayers are nil as all the income is due to the government under an agency arrangement.

NOTES TO THE FINANCIAL STATEMENTS

18. USABLE RESERVES

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

19. UNUSABLE RESERVES

Reserve	Balance 1 April 2010 £ ' 000 As restated	Net Movement in Year £ ' 000	Balance 31 March 2011 £ ' 000	Purpose of Reserve	Further Detail of Movements
Revaluation Reserve	19,566	-13,796	5,770	Store of gains on revaluation of fixed assets, not yet realised through sales.	19.1 below.
Capital Adjustment Account	390,111	-58,217	331,894	Store of capital resources set aside to meet past expenditure	19.3 below.
Financial Instruments Adjustment Account	-1,488	194	-1,294	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments	19.2 below.
Pensions Reserve	-89,246	53,320	-35,926	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	19.4 below.
Deferred Capital Receipts	47	-17	30	Represents principal outstanding from mortgages.	19.5 below.
Collection Fund Adjustment Account	42	-38	4	Resources available to meet future precept payments re City Council share only.	19.6 below.
Short-term accumulating absences a/c	-205	78	-127	Represents accrual of holiday entitlement c/f at year-end.	19.7 below.
Total	318,827	-18,476	300,351		

19.1 REVALUATION RESERVE

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

UNUSABLE RESERVES (continued)

19.1 REVALUATION RESERVE (con)

31 March 2010 <small>As restated</small>	Category	General Fund	Housing	31 March 2011
£' 000		£' 000	£' 000	£' 000
15,713	Upward revaluation of assets	938	0	938
-205	Downward revaluation of assets and impairment losses not charged to Surplus/Deficit on provision of services.	-116	-16,528	-16,644
15,508	Depreciation written out on revaluations of fixed assets	9	2,689	-15,706
3,030				2,698
18,538	Surplus or deficit (-) on revaluation of non-current assets not posted to the surplus or deficit on the provision of services. <small>(This figure appears in last section of Comp I&E Stmt on page 8)</small>	831	-13,839	-13,008
0	Transfers to Capital Adjustment Account (note 19.3) - Write-out the revaluation gains previously recognised for assets disposed of in current year.	-754	0	-754
-34	Difference between fair value depreciation and historical cost depreciation following revaluations.	-34	0	-34
18,504	Total movement in reserve in the year.	43	-13,839	-13,796
1,062	Balance at 1 April	5,493	14,073	19,566
19,566	Balance at 31 March	5,536	234	5,770

19.2 FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

This unusable reserve provides a balancing mechanism between the different rates at which gains and losses (such as premiums on the early repayment of debt and loans made at less than market value) are recognised under accounting arrangements and are required by statute to be met from the General Fund. It also has to carry the value of any impairments to investments.

31 March 2010	Category	New Advances	Redemp- tions	31 March 2011
£ ' 000		£ ' 000	£ ' 000	£ ' 000
-578	Premiums paid on premature redemption of PWLB loans. - General fund share	0	37	-541
-378	- HRA share	0	139	-239
-956	Total	0	176	-780
233	Discounts received on premature redemption of loans. - General fund share	0	-27	206
74	- HRA share	0	-16	58
-649	Net Total of Premiums / Discounts	0	133	-516
-212	Soft Loans (difference between actual value & fair value)	-624	58	-778
-627	Impairment of investments	0	627	0
-1,488	TOTAL	-624	818	-1,294

There have been various debt restructures between 1998/99 and 2008/09 which have resulted in premiums or discounts on the early repayment of debt, which are being spread over the life of the replacement or original loans (whichever was appropriate). These are included in the above account. With sharp falls in investment rates, it was more beneficial to offset potential losses in investment income by redeeming long-term PWLB debt rather than earning investment interest at very low rates.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

UNUSABLE RESERVES (continued)

19.3 CAPITAL ADJUSTMENT ACCOUNT

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

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

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

2009/10 Total As restated	CAPITAL ADJUSTMENT ACCOUNT	General Fund	Housing	2010/11 Total
£' 000		£' 000	£' 000	£' 000
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement			
	Charges for depreciation and impairment.			
-13,700	Charges for impairment of non-current assets	-224	-67,086	-67,310
-5,412	Depreciation and amortisation of non-current assets	-2,815	-2,618	-5,433
34	Additional depreciation transferred from Revaluation Reserve to Capital Adjustment a/c after revaluations	34	0	34
	Debits relating to disposals.			
-1,142	Amounts of non-current assets written off on disposals in current year.	-2,060	-188	-2,248
502	Less depreciation written out on disposals in current year	341	0	341
0	Less: Transfer from Revaluation Reserve to Capital Adjustment account following disposal.	754	0	754
	Debits relating to the historical cost of revenue funded from capital.			
-712	Revenue expenditure less grants funded from capital under statute	-525	0	-525
-84	Repayments of soft loans and housing act advances.	-127	0	-127
-20,514	Net written out amount of the cost of non-current assets consumed in the year.	-4,622	-69,892	-74,514
	Credits relating to capital financing applied in the year.			
3,056	Capital expenditure financed from capital receipts reserve	5,039	0	5,039
3,829	Capital expenditure financed from major repairs reserve	0	3,878	3,878
4,976	Capital expenditure charged against the General Fund and HRA balances.	224	1,855	2,079
5,653	Capital expenditure financed by grants (no condition)	4,930	73	5,003
0	Capital expenditure financed by grants received in previous year where conditions have now been met.	2,372	0	2,372
1,077	Statutory provision for the financing of capital charged to the General Fund (minimum revenue provision)	1,122	0	1,122
18,591	Total credits from resources set aside to finance capital.	13,687	5,806	19,493
-1,923	Movement in the year.	9,065	-64,086	-55,021
479	Movement in the market value of Investment Properties debited or credited to the Comp. Income & Expenditure Stmt.	-3,334	138	-3,196
391,555	Balance at 1 April	139,784	250,327	390,111
390,111	Balance at 31 March	145,515	186,379	331,894

NOTES TO THE FINANCIAL STATEMENTS

19.4 PENSIONS RESERVE

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

2009/10		2010/11
£ ' 000		£ ' 000
46,580	Balance at 1 April	89,246
42,214	Actuarial gains or losses on pensions assets and liabilities	-38,355
5,105	Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the Comprehensive I&E Statement	-9,863
-4,653	Employer's pensions contributions and direct payments to pensioners payable in the year	-5,102
89,246	Balance at 31 March	35,926

19.5 DEFERRED CAPITAL RECEIPTS RESERVE

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

£ ' 000		£ ' 000
66	Balance at 1 April	47
-19	Transfer to the Capital Receipts Reserve upon receipt of cash	-17
47	Balance at 31 March	30

19.6 COLLECTION FUND ADJUSTMENT ACCOUNT

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

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

19.7 SHORT-TERM ACCUMULATED ABSENCES ACCOUNT

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

£ ' 000		£ ' 000
-205	Balance at 1 April	-205
205	Settlement or cancellation of accrual made at end of previous year.	205
-205	Amounts accrued at the end of the current year.	-127
0	Net difference to Comp. I&E Statement	78
-205	Balance at 31 March	-127

NOTES TO THE FINANCIAL STATEMENTS

20. CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2009/10		2010/11
£' 000		£' 000
1,051	Interest paid	1,136
-2,126	Interest received	-452
-1,075	TOTAL	684

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

21. TRADING OPERATIONS

The council operates the following trading operation:

	2008/09	2009/10	2010/11
	£' 000	£' 000	£' 000
The council runs three markets and various boot fairs			
Turnover	-229	-217	-231
Expenditure	296	303	187
Surplus (-) / deficit on trading operations	67	86	-44

22. GRANT INCOME

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

2009/10	Credited to Taxation and Non-Specific Grant Income	2010/11
£' 000		£' 000
	(a) General government grants	
-2,420	Revenue support grant	-1,678
-10,486	Distribution from non-domestic rate pool	-11,553
-64	LABGI grant	0
-73	Area based grant	-79
-583	Housing & planning delivery grant	0
-13,626	Total of General government grants	-13,310
	(b) Recognised capital grants and contributions	
-300	Marlowe fundraising	-1,884
-1,000	KCC re Marlowe	-1,000
	Heritage lottery re Beaney	-1,285
-1,311	Heritage lottery re Whitstable Castle	-556
-252	Other capital grants applied in current year	-278
-2,863		-5,003
	Capital grants applied in previous year where conditions now met	
0	Seeda re Beaney land purchase	-916
0	Heritage lottery re Beaney	-1,456
	-1,950 Seeda re Marlowe land purchase	
	-683 Marlowe fundraising	
	-157 Heritage lottery re Whitstable Castle	
-2,790		-2,372
-5,653	Total of Recognised capital grants and contributions	-7,375

NOTES TO THE FINANCIAL STATEMENTS

22. GRANT INCOME (con)

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

2009/10	Credited to Services	2010/11
£' 000	(a) "True" revenue grants	£' 000
-23,789	Rent allowances	-26,147
-14,565	Rent rebates	-14,462
-9,645	Council tax benefits	-10,238
-977	Benefits administration	-951
-599	Concessionary fares	-834
-520	Sure Start partnership	-472
-223	NDR	-241
-261	Homelessness	-246
-470	Other revenue grants	-616
<u>-51,049</u>		<u>-54,207</u>
	(b) Grants re Revenue expenditure funded by grants under Statute (REFCUS)	
-371	Housing specified grant for disabled facilities	-378
-851	Regional housing board grant	-342
-526	Defra re coast protection	-683
-47	Other grants	-74
<u>-1,795</u>		<u>-1,477</u>
-52,844	Total of General government grants	-55,684

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

2010	Capital grants receipts in advance	2011
£' 000	Grants received-	£' 000
-916	Seed grant for Beaney land purchase	0
-1,456	Heritage lottery grant for Beaney refurbishment	0
-375	Section 106 grants relevant to specific sites	-316
<u>-2,747</u>	Balance at 31 March	<u>-316</u>

23. EXTERNAL AUDIT COSTS

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

2009/10		2010/11
£' 000	Fees payable to the Audit Commission for	£' 000
130	External audit services carried out by the appointed auditor	122
0	Statutory inspection	0
48	Certification of grant claims and returns	29
178	Total	151

24. MEMBERS' ALLOWANCES

The total of members' allowances paid in the year was £ 374,400. (2009/10 - £386,500)
 Figures for PC allowances, travel & subsistence and national insurance are included from 2005/06.

NOTES TO THE FINANCIAL STATEMENTS

25. OFFICERS' EMOLUMENTS

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

Number of employees 2009/10	Remuneration Band	Number of Employees 2010/11
9	£ 50,000 - £ 54,999	2
8	£ 55,000 - £ 59,999	2
2	£ 60,000 - £ 64,999	3
5	£ 65,000 - £ 69,999	4
2	£ 70,000 - £ 74,999	1
2	£ 75,000 - £ 79,999	4
0	£ 80,000 - £ 84,999	1
1	£ 85,000 - £ 89,999	0
1	£ 90,000 - £ 94,999	2
0	£ 95,000 - £ 99,999	0
0	£100,000 - £104,999	0
1	£105,000 - £109,999	0
0	£130,000 - £134,999	1
0	£140,000 - £144,999	0
1	£145,000 - £149,999	0
32	TOTAL	20

These figures include employee pension contributions.
Final row includes returning officer's election pay in 2009/10.

25.1 SENIOR OFFICERS' EMOLUMENTS

This was a new note required under the Audit and Accounts Regulations requirements for 2009/10. It includes officers with statutory responsibilities and those reporting direct to the Chief Executive. The lowest full-time pay rate on the council's salary scale is £11k, therefore the test of the most senior salary not exceeding 20 times this rate is comfortably met.

2009/10 Salaries, fees & allowances paid or receivable.		2010/11 Salaries, fees & allowances paid or receivable.	2010/11 Employer's contribution to pension - pensionable pay multiplied by common contribution rate.
£' 000		£' 000	£' 000
146	Head of Paid Service - Chief Executive	133	25
104	Chief Financial Officer - Director of Finance and Deputy Chief Executive.	70	12
75	Head of Legal & Democratic Services	76	14
	Non Statutory Directors		
88	Director of Community Services	91	16
94	Director of Environment	95	17
	Other direct reports to Chief Executive		
75	Head of Culture & Enterprise	80	14
69	Head of Planning & Regeneration	76	13
62	Head of Policy & Improvement	62	11

The Head of Paid Service included £10k additional income as returning officer in 2009/10. 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.

NOTES TO THE FINANCIAL STATEMENTS

26. RELATED PARTY TRANSACTIONS

The council is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the council or be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the council.

Central Government

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

Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2010/11 is shown in note 24. Details of any related party transactions with members are collected annually.

Precepting authorities

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

	Receipts	Payments	Debtors at year-end	Creditors at year-end
	£ ' 000	£' 000	£' 000	£' 000
Kent County Council - Precept		54,638		0
Kent Police Authority - Precept		7,231		0
Kent & Medway Fire Authority Precept		3,543		0
Kent County Council Pension Fund [Payment of employer's superannuation contributions in respect of employees]		4,750		384

27. PRIVATE FINANCE INITIATIVE (PFI)

In October 2007 the council entered into an agreement with Kent County Council and nine other Kent district councils to all participate in a Private Finance Initiative (PFI) called 'Better Homes Actives Lives'. The PFI will generate up to 352 units of social housing across Kent, including 65 apartments for people with learning difficulties, 7 apartments for people with mental health problems and 280 units of sheltered housing for frail older people.

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

Under the agreement, the council will have nomination rights over the occupancy of the properties for the first 30 years, after which there will be the option of retaining the nomination rights or receiving an increased rent. The King Edward Court scheme and the Brymore Road scheme (now known as Henry Court) are both built and fully occupied.

28. TERMINATION BENEFITS

The council terminated the contracts of a number of employees in 2010/11, incurring liabilities of £577,000 (£261,000 in 2009/10). Of this total £155,000 is payable in respect of 3 senior heads of service in the form of compensation for loss of office and enhanced pension benefits. The remaining £422,000 is payable in respect of 13 officers from various divisions within the council who were made redundant as part of the council's rationalisation of the service.

29. IMPAIRMENT LOSSES

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

NOTES TO THE CORE FINANCIAL STATEMENTS

30. PENSION COSTS

Participation in pensions schemes.

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

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

Transactions relating to retirement benefits.

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

2009/10	Transactions in the Comprehensive Income and Expenditure Statement	2010/11
£' 000	Cost of services:	£' 000
1,490	- Current Service cost	3,135
0	- Past Service costs (includes capitalised gain from change in pension increase policy from RPI to CPI in 2010/11)	-11,894
145	- Settlements (-3339) and curtailments (184) (The above two are shown as "Non-Distributed Costs")	-3,155
	Financing and Investment Income and Expenditure:	
7,282	Interest cost of pension scheme liabilities	7,907
-3,812	Expected return on employer assets	-5,856
5,105	Total retirement benefit charged to the Surplus or Deficit on the provision of services	-9,863
	Other retirement benefit charged to the Comprehensive Income and Expenditure Statement	
42,214	Actuarial Losses / Gains (-) [32,942 + 5,413 in next two tables]	-38,355
47,319	Total charged to the Comprehensive Income & Expenditure Statement	-48,218
	Movements in Reserves Statement	
-5,105	- Reversal of net charges made for retirement benefits in accordance with the code to the Surplus or Deficit for the provision of services	9,863
	Actual amount charged against the General Fund Balance for pensions in the year:	
4,294	Employer contributions payable to the scheme.	4,750
359	Unfunded benefits paid	352

Assets and liabilities in relation to retirement benefits.

£' 000	Movement in Defined Benefit Obligation ("Scheme liabilities")	£' 000
-107,470	Opening balance at 1 April	-170,318
-1,490	Current Service cost	-3,135
0	Past Service cost (includes gain from change in pension policy)	11,894
-145	Losses (-) / Gains on settlements (9709) and curtailments (-184)	9,525
-1,001	Contributions by members (employees)	-958
6,072	Estimated benefits paid	5,493
359	Estimated unfunded benefits paid	352
-7,282	Interest cost of pension scheme liabilities	-7,907
-59,361	Actuarial Losses (-) / Gains	32,942
-170,318	Closing balance at 31 March	-122,112

NOTES TO THE FINANCIAL STATEMENTS (continued)

30. PENSION COSTS (continued)

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

2009/10	Movement in Fair Value of scheme assets	2010/11
£' 000		£' 000
60,890	Opening balance at 1 April	81,072
4,294	Employer contributions	4,750
1,001	Contributions by members (employees)	958
359	Contributions in respect of Unfunded Benefits	352
-6,072	Benefits paid	-5,493
-359	Unfunded benefits paid	-352
3,812	Expected return on employer assets	5,856
17,147	Actuarial gains / losses(-)	5,413
0	Payment of bulk transfer values	-6,370
81,072	Closing balance at 31 March	86,186

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

The actual return less expected return on pension scheme assets in the year was £1,346k. (£17,147k in 2009/10).

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

Expected L.T.Return at 31 Mar 2010	Assets value at 31 March 2010	Assets (Employer)	Expected Long Term Return at 31 March 2011	Assets value at 31 March 2011
% per annum	£ ' 000		% per annum	£ ' 000
7.5	59,993	Equities	7.4	65,501
4.5	811	Gilts	4.4	862
5.5	11,350	Other bonds	5.5	10,342
5.5	5,675	Property	5.4	7,757
3.0	3,243	Cash	3.0	1,724
6.9	81,072	Total	6.9	86,186

2010	Net Pension Liability as at 31 March in Balance Sheet	2011
£ ' 000		£ ' 000
81,072	Fair Value of Employer Assets (A)	86,186
-165,635	Present Value of Funded Liabilities (B)	-118,206
-84,563	Net underfunding in Funded Plans (A) - (B)	-32,020
-4,683	Present Value of Unfunded Liabilities (C)	-3,906
-89,246	Net Pension Liability (A) - (B) - (C) in Balance Sheet	-35,926

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

30. PENSION COSTS (continued)

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

Scheme history

	2010/11	2009/10	2008/09	2007/08	2006/07
	£' 000	£' 000	£' 000	£' 000	£' 000
Present value of liabilities	-122,112	-170,318	-107,470	-116,340	-132,840
Fair value of scheme assets	86,186	81,072	60,890	75,130	82,920
Surplus/ deficit (-) in the scheme	-35,926	-89,246	-46,580	-41,210	-49,920
Experience adjustments on scheme liabilities	17,589	861	70	3,720	300
Percentage of liabilities	-14.4%	-0.5%	-0.1%	-3.2%	-0.2%
Experience adjustments on scheme assets	5,413	17,147	-20,040	-13,940	-530
Percentage of assets	6.3%	21.2%	-32.9%	-18.6%	-0.6%
Actuarial gains / losses(-)	38,355	-42,214	-3,820	8,740	7,240
Cumulative actuarial gains/losses	-17,120	-55,475	-13,261	-9,441	-18,181

The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The total liability of £122,112k has a substantial impact on the net worth of the council as recorded in the Balance Sheet, resulting in a negative overall balance of £35,926k. However statutory arrangements for funding the deficit mean that the financial position of the council remains healthy:

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

The estimated employer's contributions for the year 2011/12 are £3,608k.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. These liabilities have been assessed by Barnett Waddington, an independent firm of actuaries. The long-term expected rate of return on assets in the scheme is shown three tables above next to the values of each category of asset.

Other assumptions are set out below:

2009/10	Mortality assumptions	2010/11
Years	Longevity at 65 for current pensioners:	Years
21.5	Men	19.8
24.4	Women	23.9
	Longevity at 65 for future pensioners:	
22.6	Men	21.9
25.5	Women	25.8
2009/10	Financial assumptions	2010/11
%		%
3.9	RPI increases / pension increase rate (in 09/10)	3.5
n/a	CPI increases / pension increase rate (in 10/11)	2.7
4.9	Rate of increase in salaries	4.5
6.9	Expected return on assets	6.9
5.5	Rate for discounting scheme liabilities (discount rate)	5.5

NOTES TO THE CORE FINANCIAL STATEMENTS

31. NOTE ON HERITAGE ASSETS

Note 2 explains that the only accounting standard that has been issued but not adopted in 2010/11 relates to FRS 30 Heritage Assets.

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

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

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

Land and Buildings

The council owns the following land and buildings, most of them historic, which are held and maintained principally for their contribution to knowledge and culture. Where the assets are recorded on the fixed asset register, the values are also shown:

Asset	Original Value £'000	Depreciation £'000	Net book Value £'000
Holy Cross Church (The Guildhall)	120	2	118
Oast House, Gas Street (Museum store)	90	2	88
Roper Gateway, St Dunstons Street	0		0
Tower House	257	18	239
Jesuit Chapel (Hales Place Chapel Trust)	0		0
Abbot's Mill & Sluice, Blackfriars St	-		-
Black Princes Chantry Wall	0		0
Roman Site Butchery Lane	1,018	46	972
Canterbury Castle	30		30
City Walls	-		-
Dane John Mound	-		-
Poor Priests Hospital, Stour Street (now Canterbury Heritage Museum)	1,450	58	1,392
St Augustines Garden Wall	-		-
St George's Clocktower	0		0
St Mary Magdalene Clocktower	0		0
Westgate Towers	506	20	486
18 Stour Street (museum extension)	-		-
Whitstable Castle	3,238		3,238
Whitstable Museum	76	1	75
Herne Bay Clocktower	-		-
Littlebourne Barn	0		0
1 st and 2 nd World War Memorial, Buttermarket	-		-
Boer War Memorial, Dane John	-		-
Kent Yeomanry War Memorial adj. Nasons	-		-
Whitstable War Memorial	-		-
All Saints Memorial Whitstable	-		-
Invicta Engine	-		-
Memorial to Kentish Martyrs	-		-
Royal Museum & Beaney Institute	4,534		4,534
Marlowe Theatre	15,247		15,247
Heritage Assets - Land & Buildings	26,566	147	26,419

With the exception of buildings such as the Marlowe Theatre, Beaney Institute, Whitstable Castle and Canterbury Heritage Museum, where there has been recent expenditure and so an identifiable Historic Cost Value, most of the other Heritage Land and Buildings are very old and therefore have a negligible Historic Cost Value. There is no obvious method of valuing these latter assets and so they are likely to remain at Historic Cost Value. This means that for this class of Heritage Assets there is not likely to be a significant change in value when they are revalued under FRS 30.

NOTES TO THE CORE FINANCIAL STATEMENTS

31. NOTE ON HERITAGE ASSETS (con)

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

Whitstable Castle has recently been the subject of a programme of extensive restoration and improvement costing £3,385k spread over the financial years from 2008/09 to 2010/11. This is classified as a community asset.

The council's theatre, the Marlowe Theatre, is being completely rebuilt and is scheduled to reopen in October 2011. This is expected to cost a total of £25,659k from 2008/09 to 2011/12.

The council has also nearly completed an extensive programme of renovation and improvement to the Beaney art gallery and museum which is expected to reopen in spring 2012. This is costing £13,044k over the period 2008/09 to 2011/12.

Museum contents and other artefacts

The council operates six museums:

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

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

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

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

The art in the museums was last valued in 2006 by Sotheby's for insurance purposes at £7,100,000. Since then, the valuation has been uplifted to take account of inflation to a value of £7,930,000.

Other museum exhibits are valued for insurance purposes at £1,555,000 and other various civic and public art commissions are valued at £670,000 giving an overall total of £10,155,000 which is likely to be an indicative value when these are revalued under FRS 30 in 2011/12.

The following assets are included on the fixed asset register:

Asset	Original Value £'000	Depreciation £'000	Net Book Value £'000
Statues – Lady Wootton's Green	26	1	25
Model Canterbury Castle	10	1	9
Van Dyck painting	950	0	950
Civic regalia	54	0	54
Heritage Assets - Museum contents etc	1,040	2	1,038

The other items have not been brought onto the balance sheet to date, partially because many of the items have been donated community assets. However, the statement of accounts has recorded their existence in the list of 'assets held' note to the balance sheet. However, with the introduction of FRS 30, a value will be attributed to these assets on the fixed asset register.

For this class of Heritage Assets therefore there is a potential increase in valuation of £9,117,000.
(£10,155,000 less £1,038,000)

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

32. OPERATING LEASES PAYABLE

The authority acquires some equipment (e.g. for car parks) through operating leases.

The amount paid under these arrangements in 2010/11 was £25,000 (2009/10 - £44,000).

The future cash payments required under these leases are:

Details of period	Commitment in	
	2011/12	2012/13-> onwards
Those operating leases in which the commitment:	£ ' 000	£' 000
expires within that year	0	0
expires in the second to fifth years from the balance sheet date	25	25
expires over five years from the balance sheet date	0	0
TOTAL	25	25

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

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

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

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

OPERATING LEASES RECEIVABLE

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

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

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

Details of period	2011/12	2012/13-> onwards
	£ ' 000	£' 000
Not later than one year	4,041	4,057
Later than one year and not later than five years	16,187	15,916
Later than five years	434,023	430,238
TOTAL	454,251	450,211

NOTES TO THE CORE FINANCIAL STATEMENTS

33. ASSETS HELD UNDER FINANCE LEASES

The original total capital value of finance lease agreements at 31 March 2011 is approximately £193,000 of which the outstanding obligations amount to less than £1,000. Finance lease payments for the year amounted to £ 200 (2009/10 - £ 200).

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

The council has awarded a contract to Serco for the provision of its waste collection and other services. The assets used by Serco in the execution of these services constitute an embedded finance lease under IFRIC 4 conditions. The net book value of these assets as at 31 March 2011 was estimated to be £424k, and this will be written off during the remaining two years of the contract at the rate of £212k p.a.

34. CONTINGENT LIABILITY

At 31 March 2011, the Council had one significant contingent liability.

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

Unfortunately a sale has never been achieved and more recently claims have emerged where courts have ruled in favour of others rather than MMI. This has increased the risk that a solvent run-off will not be achieved. If that were to be the case, councils (and others, such as housing associations) would be liable to clawback of monies paid out to settle claims. As at 31 March 2011 the estimated amount liable to clawback from the council stands at up to £1.3 million.

The main areas for claims that have arisen since the demise of MMI relate to abuse and asbestos. In relation to an asbestos case that the company lost, it is to appeal to the Supreme Court. If this appeal were to be successful, the solvency of the company is assured. If not successful, then clawback of up to £1.3 million becomes likely. Note 5 on page 23 (Post Balance Sheet Events) sets out in relation to the concessionary fares reserve a possible source of finance in this event. There is no action the council can take to improve its position. It is in the hands of the company's legal representatives and the Supreme Court.

34a. POST BALANCE SHEET EVENTS

Included within the Statements is an earmarked reserve for the settlement of outstanding concessionary fares claims made by the bus operator. The members of the Kent Scheme had triggered a process of judicial review and were seeking a reduction in this figure. To avoid this legal process, the bus company is actively negotiating with the members of the scheme and there is an expectation that the amount paid will be substantially lower than the amount in the earmarked reserve. Usage of this balance will be reviewed in the forthcoming budget process once a final settlement figure has been agreed.

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

Canterbury will pay a management fee of approximately £3.2 million to East Kent Housing in 2011/12 towards management of the housing stock. This payment will be met from existing budgets originally established to meet the council's own direct costs when it managed the stock itself.

The council will be required to prepare Group financial statements for 2011/12, in addition to its own single entity statements, to reflect the council's interest in East Kent Housing.

SEGMENTATION REPORTING

For the year ended 31 March 2011

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

Reconciliation to Subjective Analysis (Single Entity)	Service Analysis		Not reported in service mand a/c's		Not included in I&E		Net Cost of Corporate Services		Total	
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Fees, charges & other service income	(20,480)	0	0	4,187	(16,293)	(4,187)	(20,480)			
Dwelling rents	(19,052)	0	0	0	(19,052)	0	(19,052)			
Recharges	0	(1,915)	0	0	(1,915)	491	(1,424)			
Interest and investment income	0	0	0	0	0	(561)	(561)			
Income from council tax	0	0	0	0	0	(9,847)	(9,847)			
Government grants and contributions	(56,616)	(1,737)	(1,737)	0	(58,353)	(20,685)	(79,038)			
Total Income	(96,148)	(3,652)	4,187		(95,613)	(34,789)	(130,402)			
Employee expenses	18,421	(11,987)	(60)		6,374	2,107	8,481			
Other service expenses	37,993	2,121	(194)		39,920	196	40,116			
Housing benefit payments	50,489	0	0		50,489	0	50,489			
Depreciation, amortisation and impairment	0	72,720	0		72,720	3,217	75,937			
Interest & principal payments & RCCO	4,273	0	(4,273)		0	1,378	1,378			
Precepts & Levies	0	0	0		0	693	693			
Payments to Housing Capital Receipts Pool	0	0	0		0	301	301			
Gain or Loss on Disposal of Fixed Assets	0	0	0		0	(262)	(262)			
Total operating expenses	111,176	62,854	(4,527)		169,503	7,630	177,133			
Surplus or deficit on the provision of services	15,028	59,202	(340)		73,890	(27,159)	46,731			

NOTES TO THE FINANCIAL STATEMENTS

SEGMENTATION REPORTING (con)

For the year ended 31 March 2010

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

	£000s
Fees, charges & other service income	(20,501)
Dwelling rents	(19,272)
Government grants	(52,624)
Total Income	(92,397)
Employee expenses	19,370
Premises, transport & service expenses	37,592
Housing benefit payments	47,652
Interest & principal payments & RCCO	6,916
Total operating expenses	111,530
Net Cost of Services	19,133

Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement		£000s
Cost of Services in Service Analysis		19,133
Add amounts not reported in service management accounts		18,757
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement		(3,299)
Net Cost of Services in Comprehensive Income and Expenditure Statement		34,591

Reconciliation to Subjective Analysis (Single Entity)	Service Analysis		Not reported in service mand a/c's		Not included in I&E		Net Cost of Services		Corporate Amounts		Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	
Fees, charges & other service income	(20,501)	0	3,873	0	(16,628)	(3,873)	(20,501)	(16,628)	(3,873)	(20,501)	
Dwelling rents	(19,272)	0	0	0	(19,272)	0	(19,272)	(19,272)	0	(19,272)	
Recharges	0	(2,144)	0	0	(2,144)	660	(1,484)	(2,144)	660	(1,484)	
Interest and investment income	0	0	0	0	0	(957)	(957)	0	(957)	(957)	
Income from council tax	0	0	0	0	0	(9,570)	(9,570)	0	(9,570)	(9,570)	
Government grants and contributions	(52,624)	(2,898)	0	0	(55,522)	(19,279)	(74,801)	(55,522)	(19,279)	(74,801)	
Total Income	(92,397)	(5,042)	3,873	0	(93,566)	(33,019)	(126,585)	(93,566)	(33,019)	(126,585)	
Employee expenses	19,370	1,676	(61)	0	20,985	3,490	24,475	20,985	3,490	24,475	
Other service expenses	37,592	3,241	(195)	0	40,638	227	40,865	40,638	227	40,865	
Housing benefit payments	47,652	0	0	0	47,652	0	47,652	47,652	0	47,652	
Depreciation, amortisation and impairment	0	18,882	0	0	18,882	(457)	18,425	18,882	(457)	18,425	
Interest & principal payments & RCCO	6,916	0	(6,916)	0	0	969	969	0	969	969	
Precepts & Levies	0	0	0	0	0	695	695	0	695	695	
Payments to Housing Capital Receipts Pool	0	0	0	0	0	641	641	0	641	641	
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	(388)	(388)	0	(388)	(388)	
Total operating expenses	111,530	23,799	(7,172)	0	128,157	5,177	133,334	128,157	5,177	133,334	
Surplus or deficit on the provision of services	19,133	18,757	(3,299)	0	34,591	(27,842)	6,749	34,591	(27,842)	6,749	

HOUSING REVENUE ACCOUNT INCOME & EXPENDITURE STATEMENT

2009/10-		2010/11
£' 000	INCOME	£' 000
19,272	Dwelling rents (gross) (Note 8)	19,052
452	Non-dwelling rents (gross)	436
122	Leaseholder's charges for services and facilities	132
1,118	Other charges for services and facilities	1,440
20,964	TOTAL INCOME	21,060
	EXPENDITURE	
4,531	Repairs and maintenance	4,417
3,153	Supervision and management -General management	3,427
1,900	-Special services	1,626
271	Rents, rates, council tax and insurance	237
5,358	Negative housing revenue account subsidy payable (Note 9)	5,505
2,727	Depreciation charges (Note 6)	2,618
10,070	Impairment of non-current assets (Note 7)	5,907
0	Exceptional item - Impairment due to HRA valuation loss due to the reduction in the social housing discount factor (Note 7)	61,179
48	Debt management costs	51
34	Increase / decrease (-) in provision for bad or doubtful debts	73
28,092	TOTAL EXPENDITURE	85,040
7,128	NET COST OF HRA SERVICES as included in the comprehensive Income and Expenditure Statement	63,980
121	HRA services' share of Corporate and Democratic Core	121
7,249	NET COST OF HRA SERVICES	64,101
	HRA share of the operating income and expenditure included in the comprehensive Income and Expenditure Statement	
-411	Gain on sale of HRA fixed assets	-222
254	Interest payable	239
0	Premium on repurchase of borrowing	0
-3	Interest and investment income - Mortgages	-2
-132	Notional cash balances	-46
605	Pensions interest cost and expected return on pension assets (N11)	358
0	Capital grants and contributions receivable	-73
0	Area based grant	-7
7,562	SURPLUS(-) / DEFICIT FOR THE YEAR ON HRA SERVICES	64,348

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

The main differences between this and the way of accounting for the HRA balance being:

1) Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed. 2) Retirement benefits are charged as amounts become payable to pensions funds and pensioners, rather than as future benefits are earned. 3) Impairment losses of £61,179k due to the prescribed social housing discount factor applied to the valuation of housing properties being reduced from 45% to 32% and £5,907k as the assessed increase in council house values following capital works was less than actual capital expenditure. These are all reversed out in the following statement.

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.

2009/10 Net Expenditure		2010/11 Net Expenditure
£' 000 7,562	Surplus (-) / Deficit for the year on the HRA Income and Expenditure Statement	£' 000 64,348
-5,230	Adjustments between accounting basis and funding basis by statute.	-64,932
2,332	Net increase (-) / decrease before transfers to or from reserves	-584
1,132	Transfers to / from (-) reserves. (see table below)	1,316
3,464	Increase (-) / Decrease in HRA Balance for the year	732
-5,790	HOUSING REVENUE ACCOUNT BALANCE B/F AT 1 APRIL	-2,326
-2,326	HOUSING REVENUE ACCOUNT BALANCE C/F AT 31 MARCH	-1,594

NOTE TO THE MOVEMENT ON THE HRA STATEMENT

2009/10 Net Expenditure		2010/11 Net Expenditure
	Items included in the HRA Income and Expenditure Account, but <u>excluded</u> from the movement on the HRA Balance for the year.	
£' 000		£' 000
-10,070	Reversal of impairment losses (Note 7)	-67,086
0	Capital grants and contributions applied	73
411	Net gain on sale of HRA fixed assets	222
125	Difference between amounts charged to income and expenditure for premiums and discounts and the charge for the year determined by statute.	124
-584	Net charges made for retirement benefits in accordance with FRS17 (Note 11)	-570
-10,118		-67,237
	Items <u>not</u> included in the HRA Income and Expenditure Account, but <u>included</u> in the movement on the HRA Balance for the year.	
449	Employer's contributions payable to Kent Pension Fund and retirement benefits payable direct to pensioners.	450
4,439	Capital expenditure funded by the HRA (Note 4)	1,855
4,888		2,305
-5,230	Net adjustments between accounting basis and funding basis under statute	-64,932
	Transfers to / from reserves	
1,102	Transfer to/from (-) major repairs reserve (Note 3)	1,260
30	Contribution to HRA subsidence and other reserves	56
1,132	Transfers to / from reserves	1,316

NOTES TO THE HOUSING REVENUE ACCOUNT

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

1. HOUSING STOCK

i) At 31 March 2011, the council was responsible for managing 5,215 units of accommodation:

Type of Property	Number of Bedrooms				Total
	One	Two	Three	Four +	
Flats-Low Rise	1,099	315	5	0	1,419
Flats-Medium Rise	291	349	65	4	709
Flats-High Rise	64	69	0	0	133
Houses and bungalows	354	956	1,521	88	2,919
Hostel places	34	0	1	0	35
Totals	1,842	1,689	1,592	92	5,215

Plus 8 Basic Homes (shared ownership dwellings)

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

	Stock movements					Stock at 31/03/11
	Stock at 01/04/10	Right-to buy Sales	Sale to RSL	Additions	Redns.	
Flats	2,262	-1	0	0	0	2,261
Houses and bungalows	2,923	-4	0	0	0	2,919
Hostels	35	0	0	0	0	35
Totals	5,220	-5	0	0	0	5,215

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

2010 As restated	Gross Balance Sheet Value	2011
£' 000		£' 000
268,853	Operational assets	191,269
1,961	- dwellings	1,960
406	- garages	406
	- community centre	
220	Non-operational assets	220
1,127	- land	1,265
	- shops	
272,567	TOTAL	195,120

2. VACANT POSSESSION VALUE

The vacant possession value of dwellings within the HRA as at 1 April was £597,519,000. For the balance sheet, the figure has been reduced to 32% (previous factor was 45%) i.e. £191,269,000 (after adjusting for the shared equity property) to show existing use value as social housing, reflecting the economic cost of providing social housing.

3. MAJOR REPAIRS RESERVE

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

NOTES TO THE HOUSING REVENUE ACCOUNT (con)

3. MAJOR REPAIRS RESERVE (continued)

The housing subsidy for 2010/11 includes a grant in the form of a Major Repairs Allowance (MRA) to resource the Major Repairs Reserve. The MRA is ring fenced for capital expenditure of a housing nature. If any allowance is unspent in one year, it can be carried forward to finance capital expenditure in future years within the Major Repairs Reserve. The balance available for allocation in future years at 31 March 2011 is £188,000.

2009/10	Major Repairs Reserve	2010/11
£' 000		£' 000
188	Balance at 1 April	188
2,727	Transfer from capital adjustment account (HRA depreciation)	2,618
	Transfer to(-)/from HRA	
	re depreciation on non-dwellings	-39
1,102	re excess(-)/shortfall of dwellings depreciation over MRA	1,299
-3,829	Less: expenditure on dwellings financed from this reserve	-3,878
188	Balance at 31 March	188

4. SUMMARY OF CAPITAL FINANCING

Capital expenditure of £6,218,000 was spent on housing assets (all on dwellings) within the HRA during 2010/11. This was financed as follows:

2009/10	Capital financing of HRA expenditure	2010/11
£' 000		£' 000
3,829	Major Repairs Reserve	3,878
4,439	Revenue	1,855
324	Borrowing	412
0	Capital receipts	0
0	Capital Grant	73
8,592	Total	6,218

5. SUMMARY OF CAPITAL RECEIPTS

Housing capital receipts during 2010/11 were as follows:

2009/10	Housing capital receipts	2010/11
£' 000		£' 000
1,012	Dwelling sales (net of administration deduction)	391
15	Other sales	2
19	Mortgage repayments and discounts repaid	17
1,046	Total	410

6. DEPRECIATION OF FIXED ASSETS

Depreciation of £2,618,000 was charged to the HRA. This comprises £2,579,000 for dwellings and £39,000 for non dwelling housing assets.

7. IMPAIRMENT OF FIXED ASSETS

The council's Valuation Officer, a member of FRICS, has advised that there were no specific impairments during the year, however there was an overall impairment of £67,086,000 made up of £61,179,000 from a decrease in housing stock values due to the social housing discount factor being reduced from 45% to 32% and £5,907,000 being the difference between £6,218,000 housing capital expenditure and the assessed increase in effective value of only £311,000 (after applying the 32% factor as in note 2 above).

NOTES TO THE HOUSING REVENUE ACCOUNT (con)

8. DWELLING RENTS (GROSS)

This is the total rent income for dwellings for the year after allowance is made for voids etc. Average rents were £ 73.61 per week in 2010/11 (£ 74.27 in 2009/10). Rents were decreased on 1st April 2010 by an average of £0.66 per week.

9. HOUSING SUBSIDY

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

2009/10	Housing subsidy	2010/11
£' 000		£' 000
8,403	Management and Maintenance Allowance	8,493
3,829	Major Repairs Allowance	3,878
745	Charges for Capital	797
0	Rent rebates	0
12,977		13,168
-18,347	Notional Rent	-18,670
-5	Interest on Receipts	-2
-5,375	Sub-Total re Current Year's Subsidy	-5,504
17	Adjustment re Previous Year's Subsidy	-1
-5,358	Total	-5,505

10. RENT ARREARS

The figures are as follows:

2009/10		2010/11
£' 000		£' 000
801	Gross Rent Arrears at 31 March	751
-289	Prepayments of Rent	-249
512	Net Rent Arrears at 31 March	502
625	Provision for bad debts at 31 March	593
%		%
4.2	Gross rent arrears as a proportion of gross dwelling rent income	3.9

11. HRA SHARE OF PENSIONS

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

2009/10		2010/11
£' 000		£' 000
-269	HRA share of current service cost less employer contributions	-37
-201	HRA share of past service cost less employer contributions	-201
-470	Adjustment to "General management" line of HRA statement	-238
605	HRA share of pensions interest cost and expected return on	358
135	pensions assets	120
-584	Net charges made for retirement benefits in accordance with FRS17	-570
449	Employer's contributions payable to the Kent Pension Fund and	450
-135	retirement benefits payable direct to pensioners	-120
	HRA share of contributions to/from Pensions Reserve	
0	Net effect on HRA balance	0

THE COLLECTION FUND
INCOME AND EXPENDITURE ACCOUNT

2009/10		Note	2010/11
£ ' 000			£ ' 000
	INCOME		
63,611	Council Tax (net of benefits & transitional relief)		64,983
	Transfers from General Fund		
9,579	- Council Tax benefits		10,184
44,798	Income from business ratepayers	4	44,423
117,988			119,590
	EXPENDITURE		
	Precepts and demands: (excluding payments re previous year's surplus)	2	
52,894	- Kent County Council		54,420
6,940	- Kent Police Authority		7,202
3,404	- Kent & Medway Fire & Rescue Authority		3,529
9,555	- Canterbury City Council (incl. Parishes)		9,847
72,793	Business rate	4	74,998
44,591	- Payment to national pool		44,194
207	- Costs of collection		229
	Bad and doubtful debts		
-249	- Write-offs		-179
530	- Provisions		342
0	Contributions towards previous year's estimated Collection Fund surplus		300
117,872			119,884
-116	NET FUND SURPLUS (-) / DEFICIT FOR YEAR		294
211	COLLECTION FUND BALANCE AT 1 APRIL		327
327	COLLECTION FUND BALANCE AT 31 MARCH	2	33

NOTES TO THE COLLECTION FUND ACCOUNTS

1. GENERAL NOTE

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

2a. "NEW" COLLECTION FUND ELEMENT

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

2009/10		2010/11
£ ' 000		£ ' 000
72,793	Precepts (excluding distribution of previous year's surplus)	74,998
281	Write-Off Provision	163
73,074		75,161
-73,190	Council tax (incl. benefits & subsidy scheme)	-75,168
-116	Surplus (-) / Deficit	-7
0	Precepts - Distribution of previous year's surplus / deficit(-)	300
-211	Balance at 1 April	-327
-327	Balance at 31 March	-34

An estimated break-even position at 31 March 2009 was forecast and notified to KCC, KPA and K&MF&RA in December 2008. An estimated surplus of £300,000 at 31 March 2010 was notified to all the above in December 2009. A break-even position at 31 March 2011 was notified to all the above in December 2010.

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

Since the 2009 SORP, the collection fund has to be apportioned at the year-end across all of the major preceptors. This comprises two elements: the share of the estimated break-even which was notified in December 2010 pro-rata to the 2010/11 precepts, and the balance of £34,000 pro-rata to the 2011/12 precepts. The equivalent figures last year were the share of the estimated surplus of £300,000 which was notified in December 2009 pro-rata to the 2009/10 precepts, and the balance of £27,000 pro-rata to the 2010/11 precepts.

2009/10		2010/11
£ ' 000	Major Preceptors	£ ' 000
238	Kent County Council	25
31	Kent Police Authority	3
16	Kent Fire and Rescue Authority	2
285	Total share by Major Preceptors	30
42	Canterbury City Council (The council's own share is shown in the balance sheet under the heading - Collection fund adjustment account)	4
327	Balance at 31 March	34

NOTES TO THE COLLECTION FUND ACCOUNTS (continued)

3. COUNCIL TAX

The council's tax base i.e. the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings, was calculated as follows:

2009/10 Band D Equivalent Dwellings	Band	Estimated Number of Taxable Properties after effect of discounts	Ratio	2010/11 Band D Equivalent Dwellings
3,008	A	4,599	6 / 9	3,066
8,419	B	10,832	7 / 9	8,425
14,458	C	16,273	8 / 9	14,465
10,431	D	10,574	9 / 9	10,574
7,313	E	6,017	11 / 9	7,354
4,978	F	3,504	13 / 9	5,062
3,052	G	1,868	15 / 9	3,114
140	H	70	18 / 9	139
51,799		53,737		52,199
99.5%		Multiplied by Collection Rate		99.5%
51,540		COUNCIL TAX BASE		51,938

4. INCOME FROM BUSINESS RATES

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

2009/10		2010/11
£ ' 000		£ ' 000
(113,537)	X (48.1p) Non-domestic rateable value (137,156)	
54,611	multiplied by small business rate (40.7 p)	55,822
-10,020	Less: allowances and other adjustments	-11,628
44,591	Net contribution due to NNDR national pool	44,194
207	Cost of Collection	229
44,798	Income from business ratepayers	44,423

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

NOTE RE TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS-based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10.

The following notes and tables explain the material differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

Government Grants

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

Adjustment 1 : The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 Balance Sheet

Portions of government grants deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.

Adjustment 2 : Section 106 planning receipts which were previously part of the earmarked reserve balance have been split into two. Those where there is a condition on using the grant have been transferred to the capital grants receipts in advance and those where there is no condition on using the grant have been transferred to capital grants unapplied.

Surplus Assets

Under the Code, assets held for sale are only recognised if they are being actively marketed. Previously assets were transferred to the category surplus assets as soon as they became surplus to requirements.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

Adjustment 3 : The balance on Surplus Assets at 31 March 2009, except for one asset, has been transferred back to the originating category - land and buildings. Each asset has then been revalued down to its previous use with corresponding reductions to either the Revaluation Reserve if this reserve held previous gains on the asset or the Capital Adjustment Account if not.

Where there had been revaluations or impairments to these assets in 2009/10, these have been reversed out in the Comprehensive Income and Expenditure Statement.

Investment Properties

Under the Code, investment properties are only recognised if they are primarily being held for generating rental income. Previous assets such as start-up business units or others which are being held for purposes other than income generation were also classified as Investment Properties.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

Adjustment 4 : Part of the balance on Investment Properties at 31 March 2009 has been transferred back to either land and buildings or assets under construction. Any change in value of Investment Properties is now credited or debited to the Comprehensive Income and Expenditure Statement, which is reversed out via the Movements in Reserves Statement to the Capital Adjustment Account. Any balance on the Revaluation Reserve which related to Investment Properties has been transferred to the Capital Adjustment Account.

Where there had been revaluations or impairments to these assets in 2009/10, these have been reversed out in the Comprehensive Income and Expenditure Statement.

Other adjustments

Short-term accumulated absences refer to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the council. The most significant benefit is holiday pay. Under the code this entitlement has to be accrued (previously it didn't). The government has issued regulations which has allowed this accrual to be reversed out again to the short-term accumulated absences account. This is shown as **Adjustment 5**.

Embedded leases. Under the code, the vehicles owned by the contractor which runs the refuse collection contract now have to be treated as an embedded lease. A further change under **Adjustment 5** is to provide an addition to the value of vehicles, plant and equipment with the contra account being long-term creditors.

Cash and Cash equivalents. Under the code, investments which had less than 3-months duration at the time they were taken out are now treated as cash equivalents rather than short-term investments. A further change under **Adjustment 5** is therefore to transfer these investments to cash equivalents.

NOTE RE TRANSITION TO IFRS(con)

This shows the adjustments to the 31 March 2009 Balance Sheet under IFRS.

31.03.2009 Balance under SORP	ADJUSTMENTS						31.03.2009 Balance under IFRS	
	1. Grants	2. Grants	3. Surplus assets	4. Invest Propts	5. Other		£ ' 000	£ ' 000
£ ' 000	£' 000	£' 000	£' 000	£' 000	£' 000	Property, Plant & Equipment	£ ' 000	£ ' 000
257,093						Council dwellings	257,093	
54,223			198	959		Other land and buildings	55,380	
28,048						Infrastructure assets	28,048	
1,974					845	Vehicles, plant and equipment	2,819	
1,812						Community assets	1,812	
8,165				278		Assets under construction	8,443	
351,315	0	0	198	1,237	845			353,595
68,771				-1,275		Investment property		67,496
98						Intangible assets		98
420,184	0	0	198	-38	845	Sub-total		421,189
762						Long-Term Debtors		762
420,946	0	0	198	-38	845	TOTAL LONG-TERM ASSETS		421,951
34,943					-1,805	CURRENT ASSETS		
128						Short-Term Investments	33,138	
9,670						Inventories	128	
-1,872						Short-Term Debtors	9,670	
517						Less : Provision for Bad Debts	-1,872	
4,674			-4,419			Payments in Advance	517	
1,088					1,805	Assets held for sale	255	
49,148	0	0	-4,419	0	0	Cash and Cash Equivalents	2,893	
470,094	0	0	-4,221	-38	845	TOTAL ASSETS		44,729
-11,231						CURRENT LIABILITIES		466,680
-694					-205	Creditors	-11,436	
-7,506						Deposits & receipts in advance	-694	
0						Short-term borrowing	-7,506	
-19,431	0	0	0	0	-205	Bank overdraft	0	-19,636
450,663	0	0	-4,221	-38	640	TOTAL ASSETS LESS CURRENT LIABILITIES		447,044
0						LONG-TERM LIABILITIES		
-20,668					-845	Long-term creditors	-845	
-17,987	17,987					Long-term borrowing	-20,668	
0	-3,706	-414				Government grants deferred		
-46,580						Capital grants receipts in advance	-4,120	
-85,235	14,281	-414	0	0	-845	Liability related to defined benefit pension scheme	-46,580	-72,213
365,428	14,281	-414	-4,221	-38	-205	NET ASSETS		374,831
£ ' 000	£' 000	£' 000	£' 000	£' 000	£' 000	USABLE RESERVES		£ ' 000
1,632						General Fund	1,632	
5,790						Housing Revenue Account	5,790	
13,385		-1,773				Earmarked reserves	11,612	
188						Major repairs reserve	188	
10,396						Capital receipts reserve	10,396	
0		1,359				Capital grants unapplied	1,359	
31,391	0	-414	0	0	0			30,977
7,965			-259	-6,644		UNUSABLE RESERVES		
374,630	14,281		-3,962	6,606		Revaluation reserve	1,062	
-2,071						Capital adjustment account	391,555	
-46,580						Financial instruments adjustm'nt a/c	-2,071	
66						Pensions reserve	-46,580	
27						Deferred capital receipts	66	
0					-205	Collection fund adjustment account	27	
334,037	14,281	0	-4,221	-38	-205	Short-term accumulating absences a	-205	343,854
365,428	14,281	-414	-4,221	-38	-205	TOTAL RESERVES		374,831

NOTE RE TRANSITION TO IFRS(con)

This shows the adjustments to the 31 March 2010 Balance Sheet under IFRS.

31.03.2010 Balance under SORP	ADJUSTMENTS						31.03.2010 Balance under IFRS	
	1. Grants	2. Grants	3. Surplus assets	4. Invest Propts	5. Other		£ ' 000	£ ' 000
£ ' 000	£ ' 000	£ ' 000	£ ' 000	£ ' 000	£ ' 000	Property, Plant & Equipment	£ ' 000	£ ' 000
266,164						Council dwellings	266,164	
55,649			198	919		Other land and buildings	56,766	
27,682						Infrastructure assets	27,682	
2,546					637	Vehicles, plant and equipment	3,183	
1,810						Community assets	1,810	
16,059				0		Assets under construction	16,059	
369,910	0	0	198	919	637			371,664
70,629				-998		Investment property		69,631
43						Intangible assets		43
440,582	0	0	198	-79	637	Sub-total		441,338
729						Long-Term Debtors		729
441,311	0	0	198	-79	637	TOTAL LONG-TERM ASSETS		442,067
						CURRENT ASSETS		
16,863					-6,934	Short-Term Investments	9,929	
93						Inventories	93	
17,511						Short-Term Debtors	17,511	
-2,030						Less : Provision for Bad Debts	-2,030	
704						Payments in Advance	704	
4,733			-4,478			Assets held for sale	255	
255					6,934	Cash and Cash Equivalents	7,189	
38,129	0	0	-4,478	0	0			33,651
479,440	0	0	-4,280	-79	637	TOTAL ASSETS		475,718
						CURRENT LIABILITIES		
-10,776					-205	Creditors	10,981	
-756						Deposits & receipts in advance	756	
-7						Short-term borrowing	7	
-1,250						Bank overdraft	1,250	
-12,789	0	0	0	0	-205			-12,994
466,651	0	0	-4,280	-79	432	TOTAL ASSETS LESS CURRENT LIABILITIES		462,724
						LONG-TERM LIABILITIES		
0					-637	Long-term creditors	637	
-25,688						Long-term borrowing	25,688	
-21,632	21,632					Government grants deferred		
0	-2,372	-375				Capital grants receipts in advance	2,747	
-89,246						Liability related to defined benefit pension scheme	89,246	
-136,566	19,260	-375	0	0	-637			-118,318
330,085	19,260	-375	-4,280	-79	-205	NET ASSETS		344,406
£ ' 000	£ ' 000	£ ' 000	£ ' 000	£ ' 000	£ ' 000	USABLE RESERVES		£ ' 000
2,509						General Fund	2,509	
2,326						Housing Revenue Account	2,326	
13,101		-1,971				Earmarked reserves	11,130	
188						Major repairs reserve	188	
7,830						Capital receipts reserve	7,830	
0		1,596				Capital grants unapplied	1,596	
25,954	0	-375	0	0	0			25,579
						UNUSABLE RESERVES		
28,647			-766	-8,315		Revaluation reserve	19,566	
366,129	19,260		-3,514	8,236		Capital adjustment account	390,111	
-1,488						Financial instruments adjustm'nt acco	-1,488	
-89,246						Pensions reserve	-89,246	
47						Deferred capital receipts	47	
42						Collection fund adjustment account	42	
0					-205	Short-term accumulating absences a	-205	
304,131	19,260	0	-4,280	-79	-205			318,827
330,085	19,260	-375	-4,280	-79	-205	TOTAL RESERVES		344,406

NOTE RE TRANSITION TO IFRS (con)

This shows the adjustments to the comprehensive income and expenditure statement 2009/10 under IFRS.

2009/10 Net Exp'd under SORP	ADJUSTMENTS					2009/10 Net Exp'd under IFRS
	1. Grants	2. Grants	3. Surplus assets	4. Invest Propts	5. Other	
£' 000	£' 000	£' 000	£' 000	£' 000	£' 000	£' 000
						Gross expenditure & income and net exp'd.
						Cultural, environmental & planning services
2,297	79					Culture and heritage
4,824	53		-187	-188		Recreation, sport and open spaces
600						Tourism
834	244					Coast protection
2,779	71					Waste collection and disposal
4,730	23					Other environmental services
4,156	44	-39				Planning & development services
						Highways & transport services
86	25					Highways
1,279	8					Parking services, public transport & harbour
						Housing services
7,283	3		-113	-50		Housing Revenue Account (HRA)
0						Housing benefits payments & administration
689						Other housing services (non HRA)
						Central services
958						Local tax collection costs
313						Council tax benefits
352						Other central services
2,429	124					Corporate and Democratic Core
145	0					Non Distributed Costs - Pensions (Note 30)
1,801	0		-148	-913		- Impairment losses re non-operational assets
35,555	674	-39	-448	-1,151	0	Cost of Services
						Other operating expenditure
-388						Net gain(-) / loss on sale of fixed assets
695						Parish council precepts & drainage board levy
641						Housing capital receipts cont. to govt. pool
						Financing and investment Income and Expenditure
1,071						Interest payable on debt (Note 11.2)
-102						Impairment of financial instruments(current year)
7,282						Pensions interest costs
-3,812						Expected return on pension assets (Note 30)
						Investment interest income (Note 11.2)
-957						Rentals received on investment properties
0					-3,656	Expenses incurred on investment properties
0					626	Changes in fair value of investment properties
0				-479		Surplus from trading operations (Note 21)
-2,944					3,030	Taxation and non-specific grant income
		-5,653				Recognised capital grants & contributions
0						Demand on the Collection Fund
-9,570						General government grants (Note 8 & 22)
-13,626						
13,845	674	-5,692	-448	-1,630	0	Surplus (-) or Deficit on provision of services
-20,716			507	1,671		Surplus (-) on revaluation of non current assets
0						Impairment losses(chargeable to revaluation reserve)
42,214						Actuarial losses on pension fund assets & liabilities (see note 30 to core financial statements for details)
35,343	674	-5,692	59	41	0	Total Comprehensive Income and Expenditure

RESTATED OPENING BALANCE SHEET AS AT 31ST MARCH 2009 & 2010

When there is a change of accounting policy, an additional opening balance sheet is required under the code.

2009 As restated			Notes	2010 As restated	
£ ' 000	£ ' 000			£ ' 000	£ ' 000
257,093		Property, Plant & Equipment	9	266,164	
55,380		Council dwellings		56,766	
28,048		Other land and buildings		27,682	
2,819		Infrastructure assets		3,183	
1,812		Vehicles, plant and equipment		1,810	
8,443		Community assets		16,059	
	353,595	Assets under construction			371,664
	67,496	Investment property	9		69,631
	98	Intangible assets	9		43
	421,189	Sub-total			441,338
	762	Long-Term Debtors	12		729
	421,951	TOTAL LONG-TERM ASSETS			442,067
		CURRENT ASSETS			
33,138		Short-Term Investments	11.5	9,929	
128		Inventories	14	93	
9,670		Short-Term Debtors	13	17,511	
-1,872		Less : Provision for Bad Debts	13.1	-2,030	
517		Payments in Advance		704	
255		Assets held for sale	16	255	
2,893		Cash and Cash Equivalents	15	7,189	
	44,729				33,651
	466,680	TOTAL ASSETS			475,718
11,436		CURRENT LIABILITIES			
694		Creditors	17	10,981	
7,506		Deposits & receipts in advance		756	
0		Short-term borrowing	11.1	7	
	-19,636	Bank overdraft	15	1,250	
	447,044	TOTAL ASSETS LESS CURRENT LIABILITIES			-12,994
845		LONG-TERM LIABILITIES			
20,668		Long-term creditors		637	
4,120		Long-term borrowing	11.4	25,688	
46,580		Capital grants receipts in advance	22	2,747	
	-72,213	Liability related to defined benefit pension scheme	30	89,246	
	374,831	NET ASSETS			-118,318
1,632	£ ' 000	USABLE RESERVES	18		344,406
5,790		General Fund		2,509	
11,612		Housing Revenue Account		2,326	
188		Earmarked reserves	7	11,130	
10,396		Major repairs reserve		188	
1,359		Capital receipts reserve		7,830	
	30,977	Capital grants unapplied		1,596	
1,062		UNUSABLE RESERVES			25,579
391,555		Revaluation reserve	19.1	19,566	
-2,071		Capital adjustment account	19.3	390,111	
-46,580		Financial instruments adjustm'nt account	19.2	-1,488	
66		Pensions reserve	19.4	-89,246	
27		Deferred capital receipts	19.5	47	
-205		Collection fund adjustment account	19.6	42	
	343,854	Short-term accumulating absences a/c	19.7	-205	
	374,831	TOTAL RESERVES			318,827
					344,406

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

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

The Authority's responsibilities

The Authority is required to:

- ◆ make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is, from September 2011, the Head of Finance. (Prior to this date, the officer was the Director of Finance)
- ◆ manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- ◆ approve the Statement of Accounts.

The Head of Finance's responsibilities:

The Head of Finance 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 Head of Finance has:

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

The Head of Finance has also:

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

The Statement of Accounts presents a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2011.

Signed I.T.Cooke

Head of Finance

Date 27/09/11

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CANTERBURY CITY COUNCIL

Opinion on the Authority accounting statements

I have audited the accounting statements of Canterbury City Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Canterbury City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Canterbury City Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Canterbury City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

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

Andy Mack
Officer of the Audit Commission

Audit Commission,
1st Floor,
Millbank Tower,
Millbank,
London,
SW1P 4HQ

Date: 29th September 2011