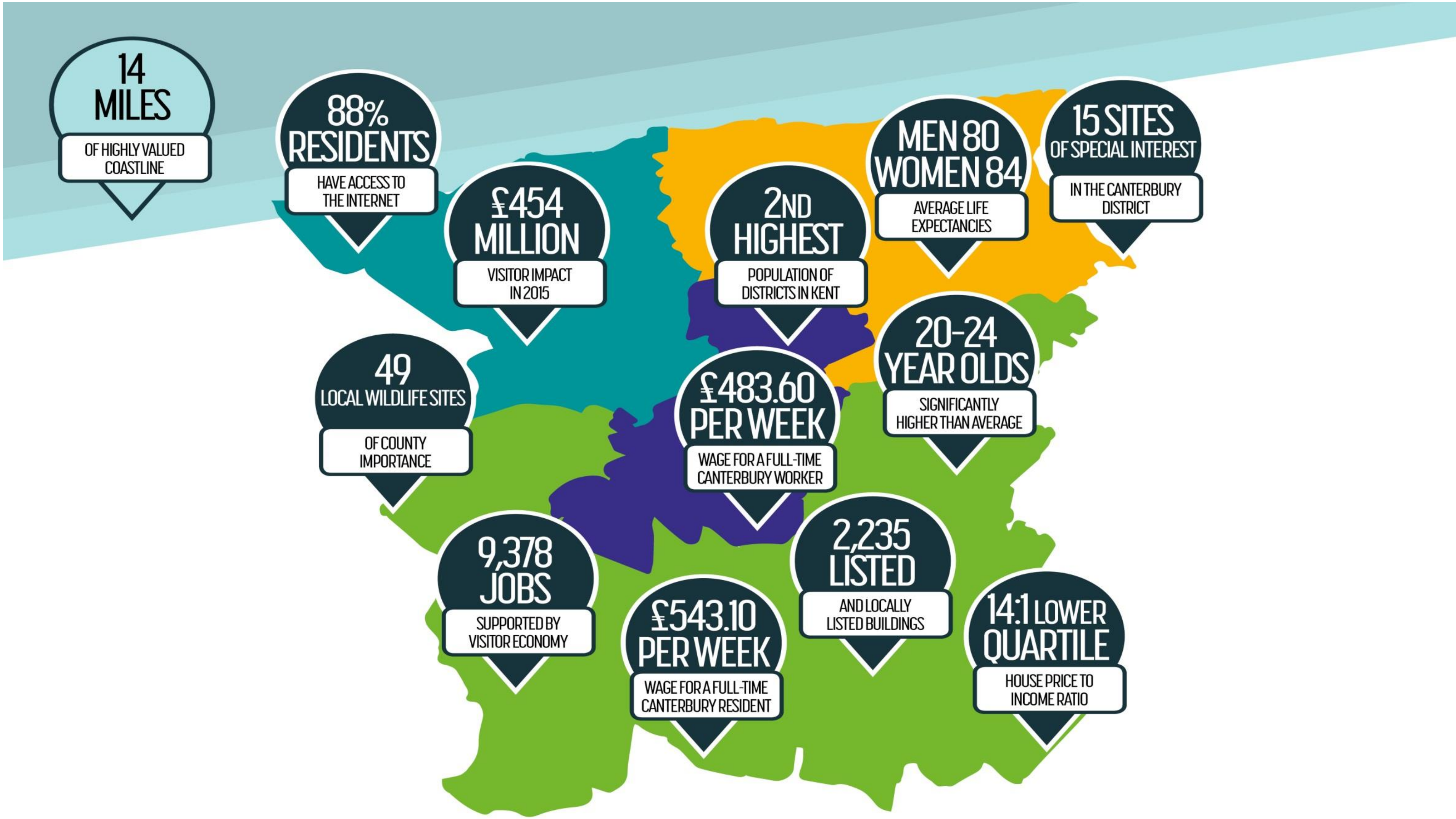
# Statement of Accounts

## for the Year Ended

## 31 March 2017

Patricia Marshall CPFA
Director of Resources

## Canterbury City Council – information about the district



# Contents

## Information Accompanying the Statement of Accounts



## Statement of Accounts

### Financial Statements

**THE STATEMENT OF ACCOUNTS**

## NARRATIVE REPORT

### Introduction

This narrative report provides a guide to the Council's accounts and financial position as at 31 March 2017. It includes:

- An explanation of each of the main financial statements;
- A look back at financial and non- financial performance in 2016/17;
- any major events or changes in presentation and accounting that impact on the Accounts; and
- Future financial challenges.

### Explanation of the main financial statements

The Accounts and Audit Regulations 2015 require the Statement of Accounts to be prepared, and signed, by the responsible officer by 30 June 2017. The accounts are set out on pages 15 to 85. The statements have been prepared in accordance with proper accounting practices and all relevant statutory requirements.

Proper accounting practices represent compliance with the following:

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

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

• The Service Reporting Code of Practice that establishes proper practice for consistent financial reporting below the Statement of Accounts level and has statutory recognition.

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

The Statement of Accounts comprises:

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

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

- ***Core Financial Statements***

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

➢ **Comprehensive Income and Expenditure Statement**

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

- **Balance Sheet**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories – usable and unusable – as referred to under the Movement in Reserves Statement above.

- **Movement in Reserves Statement**

This Statement shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The 'surplus / (deficit) on provision of services' line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting. The 'net increase /decrease before transfers to / from earmarked reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

- **Cash Flow Statement**

The Cash Flow Statement shows the changes in the Council's cash and cash equivalent holdings during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

- **Notes to the Core Financial Statements**

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

- ***Supplementary Financial Statements***

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

- **Housing Revenue Account**

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

- **Collection Fund**

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

- ***Annual Governance Statement***

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

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

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

**Looking back at performance in 2016/17**

The Council's key performance indicators measure how the council is performing against the aims of the Corporate Plan, these are;

1. Working to achieve enough high quality housing to meet everyone's needs
2. Contributing to the good health of local people
3. Focussing our community support on those in most need of it
4. Acting with others to protect communities from flooding, crime and anti-social behaviour
5. Inspiring people through a wide range of cultural activities and opportunities
6. Making our city, towns and villages places to be proud of
7. Keeping our district clean
8. Protecting and enhancing our open spaces, heritage and wildlife rough
9. Supporting Business Growth
10. Enabling infrastructure improvements to regenerate our urban spaces and deliver
11. Corporate principles.

The Council's annual report will set out the Council's performance against its key performance indicators for 2016/17 in some detail. The performance at the half year stage is set out here https://www.canterbury.gov.uk/your-council/policy-and-plans/performance-management/ Whilst three indicators were flagged as red at the half year stage, the managers concerned considered that progress was being made and that performance would improve by the year end.

### *Financial performance in 2016/17*

This section gives an overview of the financial performance of the Council in 2016/17 for both General Fund and Housing Services, including reasons for significant variations from planned expenditure.

General Fund Revenue Expenditure

The General Fund accounts for all revenue (day to day) services other than those provided in respect of council housing. The Council set its budget for 2016/17 at the budget meeting on 18 February 2016.

The budget strategy aimed to ensure that the Council had a balanced and sustainable budget that provided the financial resources needed to implement its key priorities. The Council has a successful record in delivering its strategy and for 2016/17 it continued with the approach adopted in previous years:

- identifying efficiencies in every service area through its programme of commissioning reviews, in order to minimise service reductions - for 2016/17 the savings target was £1.2m;
- exploring different options for service delivery where they enable the Council to deliver its services at a reduced cost without a reduction in quality;
- planning its resources over a four-year period, to enable it to manage emerging cost pressures and to address these in a considered and cost-effective manner;
- transforming the methods by which customers receive the Council’s services with particular emphasis on digital transformation;
- reviewing highly subsidised services and their charges to move more towards ‘user pays’ rather than council taxpayer pays; and
- smoothing the use of reserves over the plan period, including a planned contribution from the General Fund reserve of £200,000.

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

| Service Area | Net budget | Outturn | Net Variance ()=saving |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Corporate Management | 3,987 | 4,515 | 529 |
| Planning & Regeneration | 3,307 | 3,202 | (105) |
| Strategy & Democracy | 1,638 | 1,585 | (52) |
| Digital and IT Services | 1 | 424 | 424 |
| Commissioned Services | 11,509 | 11,603 | 94 |
| Direct Services | 2 | (536) | (538) |
| Resources Services | (1,289) | (1,710) | (421) |
| **Total net expenditure** | **19,155** | **19,084** | **(71)** |
| Revenue Support Grant | (1,994) | (1,994) | 0 |
| NDR allocation | (4,290) | (4,290) | 0 |
| New Homes Bonus | (3,304) | (3,314) | (10) |
| Council Tax | (9,972) | (9,972) | 0 |
| Collection Fund adjustment | (250) | (250) | 0 |
| Parish precepts | 655 | 655 | 0 |
| **Total income sources** | **(19,155)** | **(19,165)** | **(10)** |
| **Net position** | **(0)** | **(80)** | **(80)** |

The overall revenue outturn position for 2016/17 was an underspend of £80,000. The main variances to the budget are set out below.

| Activity | Variance (£000) ()=favourable | Explanation |
|---|---|---|
| Corporate Management | 529 | Additional revenue contributions to fund capital as agreed by Committee making use of the forecast underspend. Also the planned use of the General Fund reserve was not required. |
| Digital and IT services | 424 | Additional contributions to the IT reserve plus the addition of a new post mid year, which is now built into the budget for 2017/18. |
| Direct Services | (538) | Some vacancies were held in 2016/17 and income budgets were exceeded in some areas such as licensing. |
| Revenues and Benefits | (191) | There has been a reduction in benefit claims made during the year (though this only equates to 0.3% of the budget). |
| Property Services | (134) | This is due to greater than expected rental income on a number of sites. |

**Housing Revenue Expenditure**

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

| | Net budget | Outturn | Net Variance ()=saving |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| General management | 3,655 | 3,393 | (263) |
| Special services | 2,310 | 2,145 | (165) |
| Rent, rates and charges | 341 | 319 | (22) |
| Repairs & maintenance | 6,067 | 5,890 | (177) |
| Bad debt provision | 100 | 78 | (22) |
| Rents & service charges receivable | (26,051) | (25,989) | 62 |
| **Total HRA direct budgets** | **(13,578)** | **(14,164)** | **(587)** |
| | | | |
| Support costs | 793 | 776 | (17) |
| Contribution to/from reserves | 4,105 | (3,663) | (7,768) |
| Capital charges | 4,043 | 4,409 | 367 |
| **Total HRA indirect budgets** | **8,941** | **1,522** | **(7,418)** |
| | | | |
| Self financing debt | 6,416 | 6,416 | (0) |
| | | | |
| **(Surplus)/Deficit** | **1,779** | **(6,226)** | **(8,005)** |

The overall revenue outturn position for 2016/17 was an underspend of £6,226,000. The explanations for the main variance to the budget are set out below.

| | Variance (£000) ()=favourable | Explanation |
|---|---|---|
| General management | (263) | Housing management was overall £45,000 overspent primarily due to £74,000 overspend on consultant costs for the Stock Condition Survey and the Asset Management and Disposals Strategy.<br><br>A budget provision of £207,000 for potential additional costs from East Kent Housing is now due for payment in 2017/18.<br><br>Lettings were £83,000 underspent mainly due to costs recovered for the payments to tenants moved from Cold Harbour Flats. |
| Special services | (165) | The communal accommodation budget was underspent due to the ground maintenance costs being £39,000 less than anticipated. |

| | | |
|---|---|---|
| | | Sheltered and enhanced schemes were £96,000 underspent primarily due to utility and equipment costs being under budget. |
| Repairs and maintenance | (177) | There are various under/over spends within the repairs and maintenance budgets but the main areas are listed below.<br><br>Service and remedial work £65,000 overspend due to a large number of tank inspections and remedial works identified through legionella checks.<br><br>There was an overall underspend of £82,000 across the voids price per property (PPP) and voids non PPP budgets as although there were extra works outside of the void PPP there was a low number of voids throughout the year.<br><br>External decorations and estate and property repairs were £66,000 underspent due to the programme being finished at lower costs, and lower demand throughout the year. |
| Contribution to/from reserves | (7,768) | A decision was made in December 2016 to fund the capital programme by £5,000,000 external funding rather than by this revenue contribution to reserves for capital financing. A further £989,000 of capital receipts and £823,000 one-for-one receipts were also used to fund the capital programme at year end. These factors along with the capital programme underspend resulted in a transfer from the reserve to revenue. |
| Capital charges | 367 | Depreciation was £200,000 overspent plus an overspend of £193,000 due to the repayments for the £5,000,000 loan. |

**Capital Expenditure**

Capital expenditure relates to spending on assets which last for more than one year. The capital programme for 2016/17 and beyond represents the investment priorities for the Council. The revenue impact of implementing the capital programme is reflected in the revenue budget.

The City Council’s gross expenditure on capital schemes in 2016/17 was £79.6m. This was financed by PWLB loans, grants, capital receipts and revenue contributions. The net outturn position of the capital programme after external contributions is detailed in the table below.

| Service Area | Net Budget | Net Actual spend | Carried forward | Net Variance () = saving |
|---|---|---|---|---|
| Total Planning and Regeneration | 1,904 | 293 | 1,563 | (48) |
| Total Strategy and Democracy | 55 | 57 | 0 | 2 |
| Total Commissioned Services | 7,058 | 196 | 6,852 | (10) |
| Total Deputy Chief Executive | 270 | 150 | 120 | 0 |
| Total Direct Services | 1,479 | 38 | 1,411 | (30) |
| Total Resources Department | 82,248 | 79,624 | 2,624 | 0 |
| **Total Capital Projects** | 93,014 | 80,358 | 12,570 | (86) |

The main expenditure in 2016/17 was the purchase of a 50% stake in the Whitefriars shopping centre, shown under Resources above. Council approved an amendment to the 2016/17 budget in April 2016 in order to proceed with this purchase.

The main items carried forward were the Kingsmead Leisure Centre refurbishment and public realm improvement works.

**Balance sheet**

The Council's net assets increased by £54m over the past year. The main reasons for this change were:

- the value of long term assets increased by £124m, of which £79m is due to the Whitefriars purchase and £39m due to an increase in the value of council dwellings; and
- overall borrowing increased by £73m (new borrowing for Whitefriars was £74m).

The two biggest liabilities on the balance sheet are long term borrowing at £174m and the pension deficit at £87m. Almost all of the Council's debt is with the Public Works Loan Board at a fixed rate of interest, with an average of 2.81%.

The Council is a member of the Local Government Pension Scheme, which is administered on behalf of the Council by Kent County Council. The Statement of Accounts reflects the full adoption of International Accounting Standard 19 (Retirement Benefits) (IAS19).This value is assessed by the actuary in accordance with prescribed accounting rules. Note 27 shows that the total value of liabilities (i.e. future commitments from the fund) is Council's net liability of £208.49m whereas the estimated assets are valued at £121.56m – a net deficit of £86.93m. The deficit has increased from £83.25m to £86.93m at 31 March 2017, an increase of £3.68m.

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

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

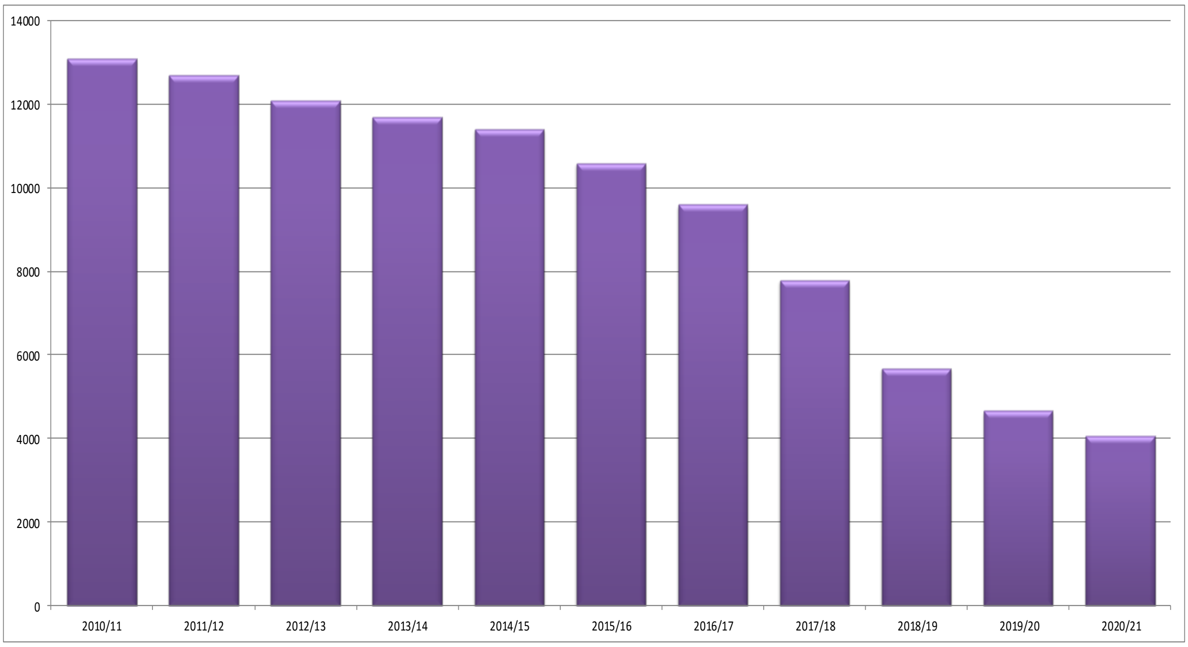
## Significant changes to local authority financial regime in 2016/17

There were no significant changes to the local authority financial regime in 2016/17.

## Future financial challenges

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

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




For 2017/18, the Council has a balanced budget with savings of £2.5m to be achieved, all of which have been identified. Around £1m of these savings are from commissioning reviews with reduced capital financing costs providing around £0.6m. By 1 April 2021 the Council has to identify further ongoing savings of £5.1m.

The four-year budget strategy is intended to ensure that the Council has a balanced and sustainable budget that provides the financial resources needed to implement its key priorities. The corporate plan includes the aim that the Council is financially self-reliant by 2019/20, delivering its services without a needs based grant from central government.

The Council is already using the following to close the budget gap:

- Undertaking commissioning reviews of all services, to enable the Council to deliver its desired outcomes in the most cost effective way; and
- transforming the methods by which services are delivered to customers through its digital by design programme.

In the context of these objectives, the Council will continue to:

- plan its resources over a four-year period, to enable it to manage emerging cost pressures and to address these in a considered and cost-effective manner;
- keep a minimum General Fund Reserve level of 10% of net service expenditure;

- respond to new demands and pressures for services by seeking compensating savings from elsewhere in the budget;
- apply project appraisal, business planning and affordability processes including whole life costings to any significant new developments;
- bid for external funding, recognising that some service enhancements can only be achieved in this way;
- minimise any adverse impact on the revenue account of its capital programme;
- look for best value from developers in terms of Section 106/CIL contributions for community interest; and
- review and tightly manage its inflation pressures.

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

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

| | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 |
|---|---|---|---|---|
| Estimated net cost of capital programme | 7,411 | 3,133 | 12,709 | 354 |
| Net borrowing requirement | 6,946 | 57 | 10,113 | 354 |
| Annual revenue cost | 442 | 4 | 657 | 25 |

The revenue impacts shown have been included in the four-year financial plan.

**Risk management**

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

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

**Conclusions**

In a regime of reducing central funding and increased uncertainty, the City Council has substantially delivered its financial plan for 2016/17 and preparatory work is in place to deliver further savings in future years whilst continuing to strive to minimise the impact on services.

Finally, I would like to take the opportunity to thank all staff within the Council for their efforts to deliver the Council's financial plans, and thanks are due in particular to the finance team for their work producing this Statement of Accounts.

Director of Resources
June 2017

**Expenditure and Funding Analysis for the year ended 31 March 2017**

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

| 2015/16 Net exp chargeable to the GF and HRA £'000 | 2015/16 Adjustments between the funding and accounting £'000 | 2015/16 Net exp in the CIES £'000 | | 2016/17 Net exp chargeable to the GF and HRA balances £'000 | 2016/17 Adjustments between the funding and accounting £'000 | 2016/17 Net exp in the CIES £'000 |
|---|---|---|---|---|---|---|
| 4,318 | (2,533) | 1,785 | Corporate Management | 4,515 | (2,645) | 1,870 |
| 3,038 | 6,302 | 9,339 | Planning & Regeneration | 3,202 | 1,300 | 4,502 |
| 1,503 | 162 | 1,665 | Strategy & Democracy | 1,585 | 249 | 1,834 |
| (22) | 39 | 17 | Digital & IT Services | 424 | (388) | 36 |
| 11,589 | (2,113) | 9,476 | Commissioned Services | 11,603 | (844) | 10,759 |
| (67) | 792 | 726 | Direct Services | (536) | 630 | 94 |
| (1,105) | 660 | (444) | Resources | (1,710) | (755) | (2,465) |
| (133) | (1,680) | (1,813) | Housing Revenue Account | (6,226) | 356 | (5,870) |
| **19,122** | **1,628** | **20,750** | **Cost of Services** | **12,858** | **(2,098)** | **10,760** |
| | | | **Other Operating Expenditure** | | | |
| 0 | (2,407) | (2,407) | Loss/Gain on Sales of Assets | 0 | (3,550) | (3,550) |
| 0 | 691 | 691 | Parish Council Precepts & Drainage Board Levy | 0 | 778 | 778 |
| 0 | 549 | 549 | Housing Capital Receipts Cont to Govt Pool | 0 | 544 | 544 |
| | | | **Financing & Investment Income & Expenditure** | | | |
| 0 | 3,380 | 3,380 | Interest Payable on Debt | 0 | 4,750 | 4,750 |
| 0 | 2,757 | 2,757 | Net interest on the net defined benefit liability | 0 | 2,841 | 2,841 |
| 0 | (884) | (884) | Investment Interest Income | 0 | (3,739) | (3,739) |
| 0 | (250) | (250) | Investment properties income and expenditure | 0 | (250) | (250) |
| 0 | 0 | 0 | Change in fair value of investment properties | 0 | 31 | 31 |
| 0 | (6) | (6) | Surplus from Trading Operations | 0 | (13) | (13) |
| | | | **Taxation & Non-Specific Grant Income & Expenditure** | | | |
| 0 | (2,416) | (2,416) | Recognised Capital Grants & Contributions | 0 | 1,594 | 1,594 |
| (8,844) | (465) | (9,309) | Income from the Collection Fund | (9,567) | (2,247) | (11,814) |
| (10,451) | (1,633) | (12,084) | Non ring-fenced Government Grants | (9,598) | 0 | (9,598) |
| **(19,295)** | **(684)** | **(19,979)** | **Other Income and Expenditure** | **(19,165)** | **739** | **(18,426)** |
| **(173)** | **944** | **771** | **(Surplus)/Deficit on provision of services** | **(6,307)** | **(1,359)** | **(7,666)** |
| (11,014) | | | Opening General Fund and HRA balances | (11,187) | | |
| (173) | | | (Surplus)/Deficit on General Fund and HRA bal | (6,307) | | |
| **(11,187)** | | | **Closing General Fund and HRA balances** | **(17,493)** | | |

## Comprehensive Income and Expenditure Statement for the year ended 31 March 2017

This statement shows the accounting cost of providing services in the year ended 31 March 2017, in accordance with generally accepted accounting practices, rather than the amount to be funded from the taxation. The taxation position is shown in the Movement in Reserves Statement.

| 2015/16 (Restated) Gross Exp | 2015/16 (Restated) Income | 2015/16 (Restated) Net Exp | | Note | 2016/17 Gross Exp | 2016/17 Income | 2016/17 Net Exp |
|---|---|---|---|---|---|---|---|
| £'000 | £'000 | £'000 | | | £'000 | £'000 | £'000 |
| 2,355 | (570) | 1,785 | Corporate Management | | 2,535 | (665) | 1,870 |
| 12,196 | (2,857) | 9,339 | Planning & Regeneration | | 7,702 | (3,200) | 4,502 |
| 2,254 | (590) | 1,665 | Strategy & Democracy | | 2,421 | (587) | 1,834 |
| 71 | (54) | 17 | Digital & IT Services | | 74 | (38) | 36 |
| 26,063 | (16,587) | 9,476 | Commissioned Services | | 24,822 | (14,063) | 10,759 |
| 14,004 | (13,279) | 726 | Direct Services | | 15,492 | (15,398) | 94 |
| 55,508 | (55,952) | (444) | Resources | | 53,692 | (56,156) | (2,465) |
| 24,197 | (26,010) | (1,813) | Housing Revenue Account | | 20,227 | (26,097) | (5,870) |
| **136,649** | **(115,899)** | **20,750** | **Cost of Services** | | **126,964** | **(116,204)** | **10,760** |
| | | | **Other Operating Expenditure** | | | | |
| 0 | (2,407) | (2,407) | Loss/Gain on Sales of Assets | | 0 | (3,550) | (3,550) |
| 691 | 0 | 691 | Parish Council Precepts & Drainage Board Levy | | 778 | 0 | 778 |
| 549 | 0 | 549 | Housing Capital Receipts Cont to Govt Pool | | 544 | 0 | 544 |
| | | | **Financing & Investment Income & Expenditure** | | | | |
| 3,380 | 0 | 3,380 | Interest Payable on Debt | 12.2 | 4,750 | 0 | 4,750 |
| 2,757 | 0 | 2,757 | Net interest on the net defined benefit liability | 28.1 | 2,841 | 0 | 2,841 |
| 32 | (916) | (884) | Investment interest and other Income | 12.2 | 125 | (3,864) | (3,739) |
| 0 | (250) | (250) | Investment properties income and expenditure | | 0 | (250) | (250) |
| 0 | 0 | 0 | Change in Fair Value of Investment Properties | | 31 | 0 | 31 |
| 189 | (195) | (6) | Surplus from Trading Operations | | 180 | (193) | (13) |
| | | | **Taxation & Non-Specific Grant Income & Expenditure** | | | | |
| 0 | (2,416) | (2,416) | Recognised Capital Grants & Contributions | 20 | 2,657 | (1,063) | 1,594 |
| 417 | (9,726) | (9,309) | Income from the Collection Fund | | 1,650 | (13,464) | (11,814) |
| 54 | (12,138) | (12,084) | Non ring-fenced Government Grants | 20 | 0 | (9,598) | (9,598) |
| **144,718** | **(143,946)** | **771** | **(Surplus)/deficit on provision of services** | | **140,521** | **(148,186)** | **(7,666)** |
| | | (39,834) | (Surplus)/deficit on revaluation of non current assets | 18.1 | | | (47,764) |
| | | (7,286) | Remeasurement of the net defined benefit liability | 28.1 | | | 1,377 |
| | | 0 | (Surplus)/deficit on revaluation of available for sale financial assets | | | | 134 |
| | | **(46,349)** | **Total Comprehensive Income & Expenditure** | | | | **(53,918)** |

## Balance Sheet as at 31 March 2017

| 2016 £'000 | 2016 £'000 | | Notes | 2017 £'000 | 2017 £'000 |
|---|---|---|---|---|---|
| | | **Property, Plant and Equipment** | 10 | | |
| 268,623 | | Council dwellings | | 308,160 | |
| 182,814 | | Other land and buildings | | 190,544 | |
| 21,876 | | Infrastructure assets | | 21,032 | |
| 6,598 | | Vehicles, plant and equipment | | 5,979 | |
| 1,483 | | Community assets | | 1,472 | |
| | 481,394 | | | | 527,189 |
| | 13,007 | Heritage Assets | 10.1 | | 12,899 |
| | 4,341 | Investment Property | 10 | | 4,310 |
| | 0 | Available for Sale Assets | 12.3 | | 78,750 |
| | 21 | Intangible assets | 10 | | 0 |
| | 498,763 | | | | 623,148 |
| | 1,870 | Payments in Advance | | | 1,773 |
| | 4,486 | Long-term debtors | 13 | | 3,978 |
| | **505,119** | **Total Long-term Assets** | | | **628,898** |
| | | **Current Assets** | | | |
| 10,411 | | Short-term investments | 12.5 | 10,011 | |
| 162 | | Inventories | | 142 | |
| 6,518 | | Short-term debtors | 14 | 7,994 | |
| 338 | | Payments in advance | | 219 | |
| 2,270 | | Assets held for sale | 10.2 | 212 | |
| 20,766 | | Cash and cash equivalents | 15 | 32,685 | |
| | 40,465 | | | | 51,263 |
| | **545,584** | **Total Assets** | | | **680,161** |
| | | **Current Liabilities** | | | |
| (13,000) | | Creditors | 16 | (16,799) | |
| (3,877) | | Deposits and receipts in advance | 16.1 | (4,952) | |
| (4,997) | | Short term borrowing | 12.1 | (7,930) | |
| (3,206) | | Provisions | 33 | (2,847) | |
| | (25,080) | | | | (32,528) |
| | **520,504** | **Total Assets less Current Liabilities** | | | **647,633** |
| | | **Long Term liabilities** | | | |
| (2,817) | | Other long-term liabilities | 30 | (2,324) | |
| (104,149) | | Long-term borrowing | 12.1 | (174,230) | |
| (139) | | Capital grants receipts in advance | | (81) | |
| (83,254) | | Liability related to defined benefit | 28.2 | (86,934) | |
| | (190,358) | | | | (263,570) |
| | **330,145** | **Net Assets** | | | **384,063** |
| | | **Usable Reserves** | 17 | | |
| (4,460) | | General Fund | | (4,540) | |
| (6,727) | | Housing Revenue Account | | (12,953) | |
| (17,224) | | Earmarked reserves | 9 | (16,289) | |
| (5,665) | | Capital receipts reserve | | (6,323) | |
| (6,637) | | Capital grants unapplied | | (4,580) | |
| | (40,711) | | | | (44,685) |
| | | **Unusable Reserves** | | | |
| (148,136) | | Revaluation reserve | 18.1 | (196,736) | |
| (226,882) | | Capital adjustment account | 18.2 | (228,788) | |
| 465 | | Financial instruments adjustment a/c | | 452 | |
| 83,254 | | Pensions reserve | 18.3 | 86,934 | |
| (0) | | Deferred capital receipts | | 0 | |
| 1,667 | | Collection fund adjustment account | | (1,575) | |
| 197 | | Short-term accumulating absences a/c | | 201 | |
| 0 | | Available for sale reserve | | 134 | |
| | (289,434) | | | | (339,378) |
| | **(330,145)** | **Total Reserves** | | | **(384,063)** |

## Movement in Reserves Statement

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

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

| Movement in Reserves 2015/16 | General Fund Balance | Earmarked Reserves | General Fund Total | Housing Revenue Account | Major Repairs Reserve | Capital Receipts Reserve | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | Total Council Reserves |
|---|---|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Balance at 31 March 2015** | (4,420) | (15,465) | **(19,885)** | (6,593) | 0 | (5,432) | (5,095) | **(37,004)** | **(246,791)** | **(283,796)** |
| **Movement in reserves during 2015/16** | | | | | | | | | | |
| (Surplus) or deficit on provision of services | 1,829 | 0 | **1,829** | (1,058) | 0 | 0 | 0 | **771** | **0** | **771** |
| Other comprehensive income and expenditure | (121) | 0 | **(121)** | 121 | 0 | 0 | 0 | **0** | **(47,120)** | **(47,120)** |
| **Total comprehensive Income and Expenditure** | 1,708 | 0 | **1,708** | (936) | 0 | 0 | 0 | **771** | **(47,120)** | **(46,349)** |
| Adjustments between accounting basis and funding basis under regulations (Note 6) | (3,631) | 0 | **(3,631)** | 928 | 0 | (232) | (1,542) | **(4,477)** | **4,477** | **0** |
| **Net (increase)/decrease before transfers to Earmarked Reserves** | (1,923) | 0 | **(1,923)** | (9) | 0 | (232) | (1,542) | **(3,706)** | **(42,643)** | **(46,348)** |
| Transfers to/(from) Earmarked Reserves (Note 9) | 1,884 | (1,759) | **125** | (125) | 0 | 0 | 0 | **0** | **0** | **0** |
| **(Increase)/Decrease in year** | (40) | (1,759) | **(1,799)** | (133) | 0 | (232) | (1,542) | **(3,706)** | **(42,643)** | **(46,348)** |
| **Balance at 31 March 2016 carried forward** | (4,460) | (17,224) | **(21,683)** | (6,726) | 0 | (5,664) | (6,637) | **(40,710)** | **(289,434)** | **(330,144)** |

**Cash Flow Statement**

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

| 2015/16 £'000 | | 2016/17 £'000 |
|---|---|---|
| 771 | Net (surplus) or deficit on the provision of services | (7,666) |
| | **Adjust net surplus or deficit on the provision of services for non-cash movements** | |
| (8,853) | Less depreciation of fixed assets | (8,883) |
| (12,094) | Less impairment of fixed assets | (1,987) |
| (242) | Movement in bad debt provision | (61) |
| 2,808 | Movement in revenue creditors | (5,166) |
| 227 | Movement in long term debtors | (1) |
| 313 | Less increase in provisions | 193 |
| (1,261) | Movement in deposits | (1,075) |
| | **Items on accruals basis (assets)** | |
| (1,220) | Movement in revenue debtors | 1,658 |
| (55) | Less decrease in payments in advance | (119) |
| (25) | Movement in inventories | (20) |
| (6,585) | Net charges made for retirement benefits in accordance with IAS19 | (6,533) |
| 4,095 | Fund and retirement benefits payable direct to pensioners | 4,230 |
| (2,569) | Carrying amount of non-current assets sold | (3,571) |
| 22 | Other non-cash items charged to the net surplus or deficit on the provision of services | (386) |
| 359 | 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 | (32) |
| 0 | Movements in the value of investment properties | (31) |
| 737 | Other revaluations to CIES | 1,540 |
| (24) | Movement in accrual on investments | (44) |
| 17 | Movement in deferred premiums less discounts | 19 |
| 19 | Movement in accrual on borrowing | (500) |
| 2,416 | Capital grants and capital income applied | (1,594) |
| (417) | Collection fund adjustment for CCC | 1,842 |
| 644 | REFCUS funded from reserves | 530 |
| **(20,915)** | | **(27,655)** |
| | **Adjust for items included in the net surplus or deficit on the provision of services that are investing activities** | |
| 4,238 | Proceeds from the sale of property, plant and equipment | 5,581 |
| 1,984 | Council Tax receipts paid to major preceptors less receipts | 37 |
| 1,241 | NDR receipts under/over paid to the government | (10,118) |
| 7,462 | | (4,500) |
| (13,453) | **Net flows from operating activities** | (32,155) |

| 2015/16 £'000 | Cash Flow continued | 2016/17 £'000 |
|---|---|---|
| (13,452) | Net flows from operating activities (b/f) | (32,155) |
| | **Capital Activities** | |
| | **Cash outflows** | |
| 14,061 | Purchase of property, plant and equipment, investment property and intangible assets | 88,120 |
| 10,000 | Purchase of investments | 30,000 |
| 24,061 | | 118,120 |
| | **Cash inflows** | |
| (4,238) | Proceeds from sale of property, plant and equipment Investment property and intangible assets | (5,581) |
| (2,416) | Capital grants received | 1,594 |
| (330) | Capital debtors movement | (11) |
| (10,000) | Investments redeemed | (30,357) |
| (1,057) | Other receipts from investing activities (principal repayments of Soft Loans etc) | (507) |
| (18,041) | | (34,861) |
| 6,020 | Net cash flow from capital activities | 83,258 |
| (7,432) | **Net cash inflow/outflow before financing** | 51,103 |
| | **Financing activities** | |
| | **Cash inflows** | |
| 0 | Cash receipts of long-term borrowing | (79,000) |
| 0 | Cash receipts of short-term borrowing | 0 |
| 0 | | (79,000) |
| | **Cash outflows** | |
| 0 | Repayments of long-term borrowing | 0 |
| 8,646 | Repayments of short-term borrowing | 5,896 |
| 8,646 | | 5,896 |
| | **Other payments/receipts re financing activities:** | |
| (1,984) | Council Tax receipts paid to major preceptors less receipts | (37) |
| (1,241) | NDR receipts under/over paid to the government | 10,118 |
| (3,224) | | 10,081 |
| **5,421** | **Financing net cash flow** | **(63,024)** |
| (2,011) | **Net increase(-)/decrease in cash equivalents** | (11,920) |
| (18,755) | Cash and cash equivalents at 1 April (excl accruals) | (20,766) |
| (20,766) | Cash and cash equivalents at 31 March (excl accruals) | (32,686) |

# NOTES TO THE FINANCIAL STATEMENTS

## Accounting Policies

### 1.1 General Principles

The Statement of Accounts summarises the Authority's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise *the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* and the *Service Reporting Code of Practice 2016/17,* supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The accounts are prepared in accordance with the following fundamental qualitative principles: Relevance, Reliability, Comparability and Understandability. The following accounting concepts have been given precedence:

i) Materiality – i.e. is the financial information significant enough to justify its inclusion in the financial statement?

ii) Going concern – the accounts are prepared on the assumption that the authority will continue in existence for the foreseeable future.

iii) Accruals – the financial statements, other than the cash flow statement, have been prepared on an accrual basis i.e. non-cash effects of transactions are reflected in the accounting period in which those effects are experienced and not in the period in which any cash is received or paid.

### 1.2 Accruals of Income and Expenditure

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

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

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

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

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

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

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

Council Tax and National Non-Domestic Rates

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

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

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

Other material revenue streams

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

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

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

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

**1.3 Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty of notice of not more than 24 hours.  Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

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

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

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

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

### 1.5 Contingent Liabilities

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

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

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

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

Depreciation attributable to the assets used by the relevant service

Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off

Amortisation of intangible assets attributable to the service.

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

### 1.7 Employee Benefits

#### 1.7.1 Benefits payable during employment

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

#### 1.7.2 Termination Benefits

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

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

### 1.7.3 Post-employment Benefits (Pension Costs)

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

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

The Liabilities of the Kent pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices using a discount rate of 2.7% (based on the indicative rate of return on the Merrill Lynch AA rated corporate bond).

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

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

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

i) Service cost comprising:

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

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

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

iii) Re-measurement comprising

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

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

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

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

#### 1.7.4 Discretionary Benefit

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

### 1.8 Events after the Reporting Period

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

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

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

### 1.9 Exceptional Items

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

### 1.10 Financial Instruments

#### 1.10.1 Financial Liabilities

Financial Liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

This means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

**1.10.2 Financial Assets (Investments)**

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market

- available for sale assets – assets that have quoted a market price and/or do not have fixed or determinable payments.

**1.10.3 Loans and Receivables**

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

**1.10.4 Soft Loans**

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

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

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

**1.11 Government Grants and Contributions**

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

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

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

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

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

**1.12 Intangible Assets**

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

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

**1.13 Interests in Companies and Other Entities**

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

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

**1.14 Inventories**

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

**1.15 Investment Property**

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

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

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

**1.16 Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

**1.16.1 The Authority as Lessee**

i) Finance Leases

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

Lease payments are apportioned between:

a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and

a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

ii) Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

### 1.16.2 The Authority as Lessor

i) Finance Leases

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

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and

- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

ii) Operating leases

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

### 1.16.2 The Authority as Lessor

i) Finance Leases

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

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and

- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

ii) Operating leases

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

**1.16.3 Embedded Leases**

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

**1.17 Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2016/17 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

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

**1.18 Property, Plant and Equipment**

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

**1.18.1 Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

**1.18.2 Measurement**

Assets are initially measured at cost, comprising:

- the purchase price

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

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

-community assets and assets under construction – depreciated historical cost or historical cost. If historical cost information is not available current cost discounted back to date of acquisition, using retail price index.

- Council dwellings – existing use value, determined using the basis of existing use value for social housing (EUV-SH)

- Investment properties and assets held for sale - fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

- All other assets – existing use value where there is sufficient evidence of transactions for that use, or depreciated replacement cost (DRC) is used as an estimate of fair value for assets of a specialist nature.

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

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.

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

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

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

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

The CIPFA Code of Practice on Transport Infrastructure Assets took effect from 1 April 2016. The Code confirms that the changes arising from the Infrastructure Code do not require retrospective adjustments to the accounts. Under the Infrastructure Code transport infrastructure assets will be recognised as a separate class of Property, Plant and Equipment measured at depreciated replacement cost.

This change has been implemented from 1 April 2015 but has not had a material effect on the presentation of the accounts.

**1.18.3 Impairment**

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

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

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

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

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

**1.18.4 Depreciation**

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

Depreciation is calculated on the following bases:

- dwellings, infrastructure and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.

- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer (as long as the amount involved is material).

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately on straight-line allocation over the useful life of the component.

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

**1.18.5 Disposals and non-current Assets held for sale**

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

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

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

### 1.18.6 Heritage Assets

The Council owns a large number of heritage assets which have either been donated to or purchased by the Council, or the Council has inherited from other public bodies. The assets fall into two basic categories: land and buildings and museum contents and artefacts plus various items of public art and sculpture on display around the district.

Heritage Assets are recognised and measured in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets where the Council does not hold information on cost or value. (See note 10.1)

### 1.19 Provisions

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

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

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

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

### 1.20 Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the

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

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

**1.21 Revenue Expenditure Funded from Capital under Statute**

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

**1.22 VAT**

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

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

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

**3 Critical Judgements in applying Accounting Policies**

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

a) The council has decided not to prepare group statements in respect of the East Kent ALMO on the grounds of materiality. The ALMO's accounts include retained earnings of £171,000, plus a significant loss for their pension deficit of £10,175,000. The council has decided that both these elements are not material for our accounts for the following reasons:

   The council's share of the ALMO's profit on transactions (approximately 25% of £171,000) is not material, so its inclusion in the financial statements would have no material impact.

   The council does not have a constructive obligation for a share of the pension fund liability, so this liability is being recognised as a contingent liability in the accounts. Consequently, in our opinion, under IAS37 and the equity method of consolidation, our share of this pension fund loss and the resultant liability would not be consolidated in any group accounts prepared. The liability would instead be disclosed as a contingent liability in any group accounts prepared. Details of the related party transactions are provided within this document.

b) There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

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

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

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

**4 Assumptions made about the future and other major sources of estimation uncertainty**

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

The items in the Authority's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|---|
| Pensions Liability | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied | The effects on the net pension liability of changes in individual assumptions can be measured. For instance a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £3m.<br><br>Changes to financial assumptions in 2016/17 have led to an increase in the net liability of £4m |
| Business Rate Appeals | The Council has a significant number of outstanding appeals against the 2010 Valuation Office (VOA) rating list. These can take several years to be heard and the outcome is difficult to estimate. Historical data has been used as the best estimate on which to base the provision for the outcome of the appeals.<br><br>Due to ongoing work in preparation for the 2017 revaluation, the VOA made little progress in resolving appeals in 2015/16 and 2016/17 This has increased the value of outstanding appeals. | If the outcome of appeals is a reduction in the rateable value above that which has been provided then the NNDR collection fund would incur the additional cost of the appeals and there would be an ongoing reduction in the NNDR yield up to 31 March 2017. |
| Fair value measurements | When the fair values of Investment Properties, Surplus Assets, Assets available for Sale and Assets Held for Sale cannot be measured based on quoted prices in active markets (ie Level 1 inputs), their fair value is measured using the following valuation techniques: | The Council uses combination of indexation techniques, beacon valuations and discounted cash flow (DCF) models to measure the fair value of its Investment Properties, Surplus Assets and Assets Held for Sale under IFRS13 depending on which technique it |

| | | |
|---|---|---|
| | 1. For Level 2 inputs, quoted prices for similar assets or liabilities in active markets at the balance sheet date;<br>2. For level 3 inputs, valuations based on;<br>- Most recent valuations adjusted to current valuation by the use of indexation and impairment review.<br><br>Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible, judgment is required in establishing fair values. These judgments typically include considerations such as uncertainty and risk. Changes in assumptions used could affect the fair value of The Council's assets and liabilities.<br><br>Where Level 1 inputs are not available, the authority's internal RICS qualified valuers identify the most appropriate valuation techniques to determine fair value.<br><br>All valuations are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council's valuation team work closely with finance officers reporting directly to the chief financial officer on a regular basis regarding all valuation matters. | considers most appropriate.<br><br>The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, occupancy levels, floor area repairs backlogs, beacon classifications and others.<br><br>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for these assets.<br><br>The most significant single asset is the Council's 50% stake in the Whitefriars Shopping Centre. This is valued using Level 2 inputs. A one percent variation would lead to a change in value of £785,000. |
| Bad debt provisions | The Council has bad debt provisions of £3.088m for income relating to the HRA, benefit overpayments, council tax, NNDR and other general debtors. The provisions are based on previous history of collection rates based on aged debt analysis. However, future payment patterns could differ from historical trends. | The actual level of bad debts could be better or worse than the provision, leading to a need to increase or reduce it. Collection rates are monitored closely to allow early identification of changes to trends in payment patterns. |

## 5 Events after the Reporting Period

The Statement of Accounts was authorised for issue by the Director of Resources on 5 June 2017. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

## 6 Adjustments between Accounting Basis and Funding Basis under Regulations

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

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

### 6.1 General Fund Balance

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

### 6.2 Housing Revenue Account Balance

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

### 6.3 Major Repairs Reserve

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

### 6.4 Capital Receipts Reserve

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

### 6.5 Capital Grants Unapplied

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

| Accounting and Funding basis adjustments 2016/17 | Usable Reserves | | | | | | |
|---|---|---|---|---|---|---|---|
| | General Fund Balance | Earmarked Reserves | Housing Revenue Account | Major Repair Reserve | Capital Receipts Reserve | Capital Grants Unapplied | Movement in Unusable Reserves |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Adjustments primarily involving the Capital Adjustment Account** | | | | | | | |
| **Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement** | | | | | | | |
| Charges for Depreciation and impairment of non-current assets | (4,984) | | (3,899) | | | | 8,883 |
| Revaluation on Property, Plant & Equipment | 1,879 | | (3,866) | | | | 1,987 |
| Movement in market value of investment property | (31) | | 0 | | | | 31 |
| Capital grant and contributions applied | 462 | | 0 | | | | (462) |
| Revenue Expenditure funded from Capital under Statute | (479) | | 0 | | | | 479 |
| Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES | (2,125) | | (1,446) | | | | 3,571 |
| **Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement** | | | | | | | |
| Statutory provision for the financing of capital investment | 3,395 | | 0 | | | | (3,395) |
| Capital expenditure charged against GF & HRA balances | 3,103 | | 4,580 | | | | (7,683) |
| **Adjustments primarily involving the Capital Grants Unapplied Account** | | | | | | | |
| Capital grants and contributions unapplied credited to CIES | (2,657) | | 0 | | | 2,657 | 0 |
| Capital grants and contributions unapplied | 601 | | 0 | | | (601) | 0 |
| **Adjustments primarily involving the Capital Receipts Reserve (CRR)** | | | | | | | |
| Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES | 4,053 | | 3,068 | | (5,581) | | (1,540) |
| Use of CRR to finance capital expenditure | | | | | 4,463 | | (4,463) |
| Contribution from CRR to finance payments to the Government capital receipts pool | (544) | | | | 544 | | 0 |
| Transfer from deferred CRR upon receipt of cash | | | | | | | 0 |
| Repayments of soft loans and Hsg Act advances | | | | | (85) | | 85 |
| **Adjustments primarily involving the Major Repairs Reserve** | | | | | | | |
| Reversal of Major Repairs Allowance credited to the HRA | | | 3,899 | (3,899) | | | 0 |
| Use of the Major Repairs Reserve to finance new capital expenditure | | | | 236 | | | (236) |
| Voluntary transfer to Major Repairs Reserve | | | (3,663) | 3,663 | | | 0 |
| **Adjustments involving the Financial Instruments Adjustment Account** | | | | | | | |
| Amount by which finance costs charged to CIES are different from finance costs chargeable in year in accordance with statutory requirements | 20 | | (7) | | | | (13) |
| **Adjustments involving the Pension Reserve** | | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to CIES | (6,309) | | (224) | | | | 6,533 |
| Employers contributions and direct payments to pensioners payable in year. | 3,955 | | 275 | | | | (4,230) |
| **Adjustments involving Collection Fund Adjustment Account** | | | | | | | |
| Amount by which council tax and NDR income adjustment included in CIES is different to the amount calculated for the year in accordance with statutory guidance | 3,242 | | 0 | | | | (3,242) |
| **Adjustments involving Accumulated Absences Account** | | | | | | | |
| Amount by which officer remuneration charged to the CIES on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements | (4) | | (0) | | | | 4 |
| **Total Adjustments 2016/17** | 3,578 | 0 | (1,284) | (0) | (658) | 2,056 | (3,692) |

| **Accounting and Funding basis adjustments 2015/16** | Usable Reserves | | | | | | |
|---|---|---|---|---|---|---|---|
| | General Fund Balance | Earmarked Reserves | Housing Revenue Account | Major Repair Reserve | Capital Receipts Reserve | Capital Grants Unapplied | Movement in Unusable Reserves |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Adjustments primarily involving the Capital Adjustment Account** | | | | | | | |
| **Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement** | | | | | | | |
| Charges for Depreciation and impairment of non-current assets | (5,342) | | (3,511) | | | | 8,853 |
| Revaluation losses on Property, Plant & Equipment | (3,862) | | (8,232) | | | | 12,094 |
| Movement in market value of investment property | 0 | | 0 | | | | 0 |
| Capital grant and contributions applied | 365 | | 509 | | | | (874) |
| Revenue Expenditure funded from Capital under Statute | (239) | | (140) | | | | 379 |
| Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES | (1,033) | | (1,535) | | | | 2,568 |
| **Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement** | | | | | | | |
| Statutory provision for the financing of capital investment | 2,274 | | | | | | (2,274) |
| Capital expenditure charged against GF & HRA balances | 3,198 | | 4,359 | | | | (7,557) |
| **Adjustments primarily involving the Capital Grants Unapplied Account** | | | | | | | |
| Capital grants and contributions unapplied credited to CIES | (2,735) | | | | | 2,735 | 0 |
| Capital grants and contributions unapplied | 4,276 | | | | | (4,276) | 0 |
| **Adjustments primarily involving the Capital Receipts Reserve (CRR)** | | | | | | | |
| Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES | 2,203 | | 2,772 | | (4,238) | | (737) |
| Use of CRR to finance capital expenditure | | | | | 3,551 | | (3,551) |
| Contribution from CRR to finance payments to the Government capital receipts pool | (549) | | | | 549 | | 0 |
| Transfer from deferred CRR upon receipt of cash | | | | | (3) | | 3 |
| Repayments of soft loans and Hsg Act advances | | | | | (91) | | 91 |
| **Adjustments primarily involving the Major Repairs Reserve** | | | | | | | |
| Reversal of Major Repairs Allowance credited to the HRA | | | 3,511 | (3,511) | | | 0 |
| Use of the Major Repairs Reserve to finance new capital expenditure | | | | 6,741 | | | (6,741) |
| Voluntary transfer to Major Repairs Reserve | | | 3,229 | (3,229) | | | 0 |
| **Adjustments involving the Financial Instruments Adjustment Account** | | | | | | | |
| Amount by which finance costs charged to CIES are different from finance costs chargeable in year in accordance with statutory requirements | 366 | | (7) | | | | (359) |
| **Adjustments involving the Pension Reserve** | | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to CIES | (6,274) | | (311) | | | | 6,585 |
| Employers contributions and direct payments to pensioners payable in year. | 3,812 | | 283 | | | | (4,095) |
| **Adjustments involving Collection Fund Adjustment Account** | | | | | | | |
| Amount by which council tax and NDR income adjustment included in CIES is different to the amount calculated for the year in accordance with statutory guidance | (104) | | | | | | 104 |
| **Adjustments involving Accumulated Absences Account** | | | | | | | |
| Amount by which officer remuneration charged to the CIES on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements | 13 | | 0 | | | | (13) |
| **Total Adjustments 2015/16** | (3,631) | 0 | 928 | 0 | (232) | (1,542) | 4,477 |

## 7 Note to the expenditure and funding analysis

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

| 2015/16 Adjustments for capital purposes | 2015/16 Net change for the pensions adjustments | 2015/16 Other differences | 2015/16 Total adjustments | | 2016/17 Adjustments for capital purposes | 2016/17 Net change for the pensions adjustments | 2016/17 Other differences | 2016/17 Total adjustments |
|---|---|---|---|---|---|---|---|---|
| £'000 | £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 | £'000 |
| 2,106 | (1,848) | (2,791) | (2,533) | Corporate Management | (1,179) | (1,961) | 494 | (2,645) |
| 6,189 | 473 | (360) | 6,302 | Planning & Regeneration | 423 | 341 | 536 | 1,300 |
| 0 | 87 | 75 | 162 | Strategy & Democracy | 53 | 120 | 76 | 249 |
| 0 | 0 | 39 | 39 | Digital & IT Services | 0 | 0 | (388) | (388) |
| (1,675) | 642 | (1,081) | (2,114) | Commissioned Services | (1,247) | 539 | (136) | (844) |
| 154 | 475 | 163 | 792 | Direct Services | 271 | 527 | (168) | 630 |
| 68 | 38 | 554 | 660 | Resources | (374) | 76 | (456) | (755) |
| 8,372 | (136) | (9,916) | (1,680) | Housing Revenue Account | 3,866 | (180) | (3,330) | 356 |
| **15,214** | **(269)** | **(13,316)** | **1,629** | **Cost of Services** | **1,813** | **(538)** | **(3,373)** | **(2,098)** |
| | | | | **Other Operating Expenditure** | | | | |
| (2,407) | 0 | 0 | (2,407) | Loss/Gain on Sales of Assets | (3,550) | 0 | 0 | (3,550) |
| 0 | 0 | 691 | 691 | Parish Council Precepts & Drainage Board Levy | 0 | 0 | 778 | 778 |
| 549 | 0 | 0 | 549 | Housing Capital Receipts Cont to Govt Pool | 544 | 0 | 0 | 544 |
| | | | | **Financing & Investment Income & Expenditure** | | | | |
| 962 | 0 | 2,418 | 3,380 | Interest Payable on Debt | 2,772 | 0 | 1,978 | 4,750 |
| 0 | 2,757 | 0 | 2,757 | Net interest on the net defined benefit liability | 0 | 2,841 | 0 | 2,841 |
| 0 | 0 | (884) | (884) | Investment Interest Income | 0 | 0 | (3,739) | (3,739) |
| 0 | 0 | (250) | (250) | Investment properties income and expenditure | 0 | 0 | (250) | (250) |
| 0 | 0 | 0 | 0 | Change in fair value of investment properties | 31 | 0 | 0 | 31 |
| 0 | 2 | (8) | (6) | Surplus from Trading Operations | 0 | 0 | (13) | (13) |
| | | | | **Taxation & Non-Specific Grant Income & Expenditure** | | | | |
| (2,416) | 0 | 0 | (2,416) | Recognised Capital Grants & Contributions | 1,594 | 0 | 0 | 1,594 |
| 0 | 0 | (465) | (465) | Income from the Collection Fund | 0 | 0 | (2,247) | (2,247) |
| 0 | 0 | (1,633) | (1,633) | Non ring-fenced Government Grants | 0 | 0 | 0 | 0 |
| | | | **944** | **Difference between surplus or deficit and the Comprehensive Income and Expenditure Statement surplus or deficit on the provision of services** | | | | **(1,359)** |

## 8 Expenditure and income analysed by nature

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

| 2015/16 £'000 | 2016/17 | Corporate Management £'000 | Planning & Regen £'000 | Strategy & Democracy £'000 | Digital & IT Services £'000 | Commissioned Services £'000 | Direct Services £'000 | Resources £'000 | HRA £'000 | Net Cost of Services £'000 | Sources of Finance £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Expenditure** | | | | | | | | | | | |
| 22,198 | Employee benefits expenses | 756 | 2,971 | 1,757 | 84 | 5,175 | 5,619 | 3,194 | 171 | **19,729** | 2,890 | **22,619** |
| 55,951 | Other service expenses | 1,030 | 3,672 | 1,019 | 733 | 16,297 | 6,843 | 4,728 | 12,694 | **47,016** | 7,957 | **54,973** |
| (733) | Support service recharges | 645 | 899 | (654) | (961) | 887 | 556 | (2,927) | 694 | **(861)** | 31 | **(831)** |
| 47,220 | Housing benefit payments | 0 | 0 | 0 | 0 | 0 | 431 | 45,931 | 0 | **46,362** | 0 | **46,362** |
| 16,776 | Depreciation, amortisation, impairment | 2 | 134 | 0 | 180 | 2,335 | 1,158 | 1,175 | 7,769 | **12,753** | 0 | **12,753** |
| 1,300 | Interest payments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 2,719 | **2,719** |
| 691 | Precepts and levies | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 778 | **778** |
| 549 | Payments to Housing Capital Receipts Pool | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 544 | **544** |
| (2,407) | Gain on the disposal of assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** | (3,550) | **(3,550)** |
| **141,545** | **Total Expenditure** | **2,432** | **7,677** | **2,122** | **36** | **24,694** | **14,607** | **52,101** | **21,328** | **124,998** | **11,370** | **136,368** |
| | **Income** | | | | | | | | | | | |
| (64,390) | Fees, charges and other service income | (54) | (1,446) | (112) | 0 | (12,276) | (12,540) | (7,447) | (26,961) | **(60,837)** | (7,483) | **(68,320)** |
| (230) | Interest and investment income | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** | (1,492) | **(1,492)** |
| (9,509) | Income from council tax & non-domestic rates | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** | (13,214) | **(13,214)** |
| (66,643) | Government grants and contributions | (508) | (1,729) | (176) | 0 | (1,659) | (1,973) | (47,119) | (237) | **(53,401)** | (7,607) | **(61,008)** |
| **(140,773)** | **Total Income** | **(563)** | **(3,175)** | **(288)** | **0** | **(13,935)** | **(14,513)** | **(54,566)** | **(27,198)** | **(114,238)** | **(29,796)** | **(144,033)** |
| **771** | **Surplus/Deficit on the provision of services** | **1,870** | **4,502** | **1,834** | **36** | **10,759** | **94** | **(2,465)** | **(5,870)** | **10,760** | **(18,426)** | **(7,666)** |

## 9 Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2016/17.

| Reserve | Note | Balance at 1 April 2015 | Transfers to reserve | Transfers from reserve | Balance at 31 March 2016 | Transfers to reserve | Transfers from reserve | Balance at 31 March 2017 |
|---|---|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Computer/equipment | a | (701) | (105) | 88 | (719) | (513) | 270 | (962) |
| Buildings maintenance | b | (841) | (183) | 339 | (684) | (146) | 0 | (830) |
| Whitefriars unit trust reserve | c | 0 | 0 | 0 | 0 | (1,007) | 0 | (1,007) |
| Restructure reserve | d | (799) | (105) | 85 | (819) | (200) | 0 | (1,019) |
| Open spaces maintenance | e | (124) | (821) | 37 | (908) | 0 | 41 | (867) |
| Budget stabilisation reserve | f | (1,603) | 0 | 305 | (1,298) | 0 | 300 | (998) |
| Carry forward reserve | g | (1,375) | (262) | 616 | (1,021) | (451) | 696 | (776) |
| Whitstable Harbour reserves | h | (1,194) | (208) | 148 | (1,254) | (149) | 38 | (1,365) |
| Waste reserve | i | (593) | 0 | 83 | (510) | (150) | 82 | (578) |
| NDR reserve | j | (1,923) | (3,245) | 1,612 | (3,557) | (1,293) | 3,022 | (1,828) |
| Capital reserve | k | (4) | (3,390) | 2,944 | (451) | (2,608) | 3,059 | (0) |
| Other General Fund reserves | | (5,474) | (1,144) | 1,324 | (5,294) | (1,427) | 1,374 | (5,347) |
| **Total of Reserves** | | (14,631) | (9,463) | 7,579 | (16,514) | (7,945) | 8,882 | (15,577) |
| Net Transfer - General Fund | | | | | (1,884) | | | 937 |
| **HRA Reserves (excl major repairs reserve)** | | | | | | | | |
| Subsidence and other reserves | H1 | (834) | (2) | 127 | (709) | (2) | 0 | (711) |
| **Total HRA Reserves** | | (834) | (2) | 127 | (709) | (2) | 0 | (711) |
| Net Transfer - HRA | | | | | 125 | | | (2) |
| **Total Reserves** | | **(15,465)** | **(9,465)** | **7,706** | **(17,224)** | **(7,947)** | **8,882** | **(16,289)** |

**Earmarked Reserves.**

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

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

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

d) The restructure reserve used to cover restructure costs.

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

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

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

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

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

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

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

H1) The HRA reserve consist mainly of a subsidence reserve created in 2005/06 to cover liabilities arising from subsidence of housing stock properties now that they are not covered within the Council's insurance policy.

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

## 10 Property plant and equipment, investment properties and intangible assets

Following the introduction of capital accounting, plant, property and equipment (PPE) are valued using the basis set out in note 10.4 below, any differences being credited or debited to the Revaluation Reserve. Infrastructure assets and community assets are included in the balance sheet at historical cost, net of depreciation. The summary of the movement in these assets during the year are listed in the two tables below.

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

## 10 Property plant and equipment, investment properties and intangible assets

| Cost or Valuation | Council Dwellings £'000 | Land and Buildings £'000 | Plant, Vehicles & Equipment £'000 | Infrastructure £'000 | Community Assets £'000 | Total Tangible assets £'000 | Investment Properties £'000 | Assets Held For Sale £'000 | Heritage Assets £'000 | Intangible Assets £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 April 2015 (b/fwd)** | 252,509 | 101,555 | 15,143 | 41,433 | 1,462 | 412,103 | 77,047 | 0 | 11,074 | 478 | 500,702 |
| **Additions** | 954 | 3,807 | 1,042 | 14 | 0 | 5,817 | 0 | 0 | 243 | 0 | 6,060 |
| **Disposals** | (1,535) | (940) | (93) | 0 | 0 | (2,569) | 0 | (80) | 0 | (4) | (2,652) |
| **Acc Dep'n w/o** | 0 | (1,771) | 0 | (288) | 0 | (2,060) | 0 | 0 | (15) | 0 | (2,074) |
| **Reclassifications/Transfers** | 0 | 68,894 | 0 | 0 | (50) | 68,844 | (72,706) | 2,350 | 1,511 | 0 | 0 |
| **Revaluations to Revaluation Reserve** | 20,137 | 16,619 | 0 | 281 | 92 | 37,128 | 0 | 0 | 194 | 0 | 37,322 |
| **Revaluations to CIES** | 0 | (2,463) | 0 | (19) | 0 | (2,482) | 0 | 0 | 0 | 0 | (2,482) |
| **At 31 March 2016** | 272,065 | 185,701 | 16,092 | 41,421 | 1,504 | 516,783 | 4,341 | 2,270 | 13,007 | 475 | 536,876 |
| **Depreciation and impairment** | | | | | | | | | | | |
| **At 1 April 2015 (b/fwd)** | (3,249) | (1,574) | (8,142) | (17,296) | (20) | (30,280) | 0 | 0 | 0 | (429) | (30,709) |
| **Charge for 2015/16** | (3,442) | (3,084) | (1,434) | (850) | (1) | (8,811) | 0 | 0 | (15) | (27) | (8,853) |
| **Disposals** | 0 | 0 | 82 | 0 | 0 | 82 | 0 | 0 | 0 | 2 | 84 |
| **Acc Dep'n w/o** | 3,249 | 1,771 | 0 | 288 | 0 | 5,309 | 0 | 0 | 15 | 0 | 5,323 |
| **Reclassifications** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Impairments to CIES** | 0 | 0 | 0 | (1,689) | 0 | (1,689) | 0 | 0 | 0 | 0 | (1,689) |
| **At 31 March 2016** | (3,442) | (2,887) | (9,494) | (19,546) | (21) | (35,390) | 0 | 0 | 0 | (454) | (35,844) |
| **Net Book Value at 31 March 2016** | 268,623 | 182,814 | 6,598 | 21,875 | 1,483 | 481,393 | 4,341 | 2,270 | 13,007 | 21 | 501,032 |

## 10.1 Heritage Assets

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

Canterbury City Council owns a large number of heritage assets which have either been donated to the Council or purchased or the Council has inherited from other public bodies. The assets are maintained to a standard which enables them to retain their original value. Therefore, it is not considered appropriate to depreciate these assets.

### Land and Buildings

The Council owns the following land and buildings, most of them historic, which are held and maintained principally for their contribution to knowledge and culture. The Council does not hold information on the cost or value of these assets and it is considered that the cost of obtaining this information outweighs the benefit to the reader of the accounts.

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

Assets whose primary function is operational, such as the Holy Cross Church (The Guildhall), Tower House, The Marlowe Theatre and museum buildings are not classed as Heritage Assets. Where the asset values are recorded on the fixed asset register, these values are also shown in the reconciliation below:

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

### Museum contents and other artefacts

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

The service operated three museums within the district during 2016/17. An independent group has been established in Herne Bay to take on the management of the museums on the council’s behalf and plans are progressing for a similar arrangement for Whitstable Museum.

The art in the museums were last valued in 2006 by Sotheby's for insurance purposes at £7,100,000. This is reviewed annually and the current valuation is £7,075,000. Other museum exhibits are valued for insurance purposes at £840,000 and various civic and public art commissions are valued at £670,000 giving an overall total of £9,626,000 which also includes Tower House and Van Dyck paintings, but excludes exhibitions on loan to the Council.

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

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

| At 31 March 2016 | | Asset | At 31 March 2017 | |
|---|---|---|---|---|
| £'000 | £'000 | | £'000 | £'000 |
| 840 | | Museum Exhibits | 840 | |
| 8,786 | | Public Art and Painting Collection | 8,786 | |
| | **9,626** | **Museum contents and artefacts** | | **9,626** |
| 972 | | Roman Site Butchery Lane | 972 | |
| 30 | | Canterbury Castle | 30 | |
| 161 | | Littlebourne Barn | 161 | |
| 473 | | Central Parade Clock Tower | 489 | |
| 1,744 | | Westgate Towers | 1,621 | |
| | **3,380** | **Land and Buildings** | | **3,273** |
| | **13,007** | **Total** | | **12,899** |

## 10.2 Assets held for sale

| 31 March 2016 | | Transfers | Assets sold | 31 March 2017 |
|---|---|---|---|---|
| £'000 | | £'000 | £'000 | £'000 |
| 2,125 | Broad Oak land | 0 | (2,125) | 0 |
| 145 | Other properties | 67 | 0 | 212 |
| **2,270** | | **67** | **(2,125)** | **212** |

## 10.3 Depreciation

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

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

## 10.4 Revaluations

The Council carries out a rolling programme of revaluations that ensures that all property, highways, infrastructure assets, plant and equipment required to be measured at current value is re-valued at least every five years. Investment properties, surplus properties and assets held for sale are re-valued every year, as are all assets with a capital value of over £400,000. Revaluation of council dwellings was carried out by Savills during 2016/17, and all other valuations were carried out internally.

| Assets Category | Date of last valuation | Basis of valuation | Valuer |
|---|---|---|---|
| Council dwellings | January 2017 | A | Savills |
| Other land and buildings | April 2012–March 2017 | B | Martin Bovingdon, FRICS |
| Surplus Assets | March 2017 | B | Martin Bovingdon, FRICS |

| | | | |
|---|---|---|---|
| Investment properties | March 2017 | C | Martin Bovingdon, FRICS |
| Assets Held for Sale | March 2017 | C | Martin Bovingdon, FRICS |
| Highways Infrastructure | March 2016 | B | John Davison |

Basis of valuation

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

B a) Existing Use Value where there was sufficient evidence of transactions for that use, or
b) Depreciated replacement cost (DRC) where the asset is of a specialised nature or where there is no evidence of market value of suitably comparable properties

C Fair value

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

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

Highest and Best Use of Investment Properties

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

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

## 11 Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. The 2015/16 position has been restated to include the value of the embedded lease assets acquired in 2013/14. 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.

| Restated 2015/16 £'000 | Capital Expenditure and Financing | 2016/17 £'000 |
|---|---|---|
| **141,202** | **Opening Capital Financing Requirement** | **134,569** |
| | **Capital Expenditure in year:** | |
| 13,984 | Property, plant and equipment | 8,458 |
| 0 | Assets available for sale | 78,884 |
| 0 | Embedded Lease addition | 287 |
| 2,917 | Revenue expenditure funded from capital under statute see note 11.1 | 2,935 |
| 16,901 | | 90,565 |
| (4,359) | **HRA loan repayment** | (4,543) |
| | **Sources of Finance** | |
| (3,551) | Capital receipts | (4,463) |
| (2,767) | Government grants and other contributions | (2,377) |
| (10,583) | Revenue and Reserves | (3,880) |
| (2,274) | Revenue and provision for repayment of loans (MRP) | (3,395) |
| (19,174) | | (14,115) |
| **134,569** | **Closing Capital Financing Requirement** | **206,476** |
| | **Explanation of movements in year** | |
| (4,359) | HRA loan repayment | (4,543) |
| (2,274) | MRP | (3,395) |
| 0 | Increase in underlying need to borrow (unsupported by government financial assistance). | 79,884 |
| **(6,633)** | **Movement of Capital Financing Requirement** | **71,947** |

## 11.1 Revenue Expenditure funded from Capital under statute (REFCUS)

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

| 2015/16 Net Exp £'000 | | 2016/17 Gross Exp £'000 | Gov Grant £'000 | Other Contr £'000 | Net Exp £'000 |
|---|---|---|---|---|---|
| 108 | Disabled facilities and improvement grants | 785 | (785) | 0 | 0 |
| 0 | Historic building grants | 0 | 0 | 0 | 0 |
| 271 | Other including parish council grants | 2,151 | (31) | (1,629) | 490 |
| **379** | Total | **2,935** | **(816)** | **(1,629)** | **490** |

The financing of this expenditure was capital receipts of £479k, grants and contributions of £1,915k, revenue funding of £11k and reserve funding of £530k. Adding the £1,915k to the £462k non REFCUS grant funded capital expenditure reconciles to the total capital grants applied to finance capital expenditure £2,377k (see table above).

## 12 Financial Instruments

### 12.1 Financial Instruments balance

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

| 31 March 2016 Long-term £'000 | 31 March 2016 Current £'000 | | 31 March 2017 Long-term £'000 | 31 March 2017 Current £'000 |
|---|---|---|---|---|
| | | **Borrowings** | | |
| (104,149) | (4,997) | Financial liabilities at amortised cost (including the £2,000k soft loan received from KCC) | (174,230) | (7,930) |
| 0 | 0 | Financial liabilities at fair value through profit and loss | 0 | 0 |
| **(104,149)** | **(4,997)** | **Total Borrowings** | **(174,230)** | **(7,930)** |
| | | **Creditors** | | |
| 0 | (9,698) | Financial liabilities at amortised cost (ie excluding statutory debts such as council tax) * | 0 | (8,854) |
| 0 | (1,384) | Bank Overdraft * | 0 | (426) |
| **0** | **(11,082)** | **Total Creditors** | **0** | **(9,280)** |
| | | **Investments** | | |
| 0 | 10,411 | Loans and receivables | 0 | 10,011 |
| 0 | 0 | Available-for-sale financial assets | 0 | 78,750 |
| **0** | **10,411** | **Total investments** | **0** | **88,761** |
| | | **Other current assets** | | |
| 0 | 5,291 | Loans and receivables (ie excluding statutory debts such as council tax) * | 0 | 8,948 |
| 0 | 22,150 | Cash and cash equivalents * | 0 | 33,111 |
| **0** | **27,441** | **Total other current assets** | **0** | **42,059** |
| | | **Soft loans** | | |
| 4,007 | 0 | Soft loans provided - see notes below | 3,714 | 0 |
| 0 | 0 | Mortgages | 0 | 0 |
| **4,007** | **0** | **Total Soft Loans** | **3,714** | **0** |

| 2016 | | 2017 |
|---|---|---|
| | *** Reconciliation to balance sheet** | |
| (13,000) | Creditors per balance sheet | (16,799) |
| 3,302 | Less statutory debts | 7,946 |
| (9,698) | Financial liabilities at amortised cost as above | (8,854) |
| | | |
| 6,518 | Debtors per balance sheet | 7,994 |
| 2,917 | Impairment of debt | 3,088 |
| (4,145) | Less statutory debt | (2,134) |
| 5,291 | Loans and receivables as above | 8,948 |
| | | |
| 22,150 | Cash and cash equivalents | 33,111 |
| (1,384) | Bank Overdraft | (426) |
| 20,766 | Cash and cash equivalents per balance sheet | 32,685 |

The Council has made a number of loans to community and amateur sports organisations at less than market rates (soft loans). The original totalling £5.22m dates back to 2008. The largest being to Kent County Cricket Club for £4m with an outstanding balance as at 31 March 2017 of £3.19m, with a total loan balance outstanding of £3.71m

When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a marginally higher effective rate of interest than the rate receivable from the organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year - the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance. Where the interest rate charged is equal to or above the council's average rate of borrowing then there is an adjustment to the fair value to reflect a credit risk.

Loans were awarded through a process of application and with agreement from the Executive. The details of the loans to KCCC can be found in the executive papers of 19 November 2009, 5 January 2012 and 19 February 2015. The second loan made to KCCC was repaid in full in December 2015.

### 12.2 Financial instruments gains/losses

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

**Financial Instruments Gains & Losses**

| | Financial Liabilities (borrowing) Liabilities measured at amortised cost £'000 | Financial Assets (Investments) Loans and receivables £'000 | Total £'000 |
|---|---|---|---|
| **Interest payable and similar charges** | | | |
| Interest payable | 4,750 | 0 | 4,750 |
| Impairment of financial assets | 0 | 0 | 0 |
| **Total** | **4,750** | **0** | **4,750** |
| **Interest and investment income** | | | |
| interest income (received) | 0 | (3,864) | (3,864) |
| interest income (impaired) | 0 | 0 | 0 |
| **Total** | **0** | **(3,864)** | **(3,864)** |
| Net (gain)/loss for the year | **4,750** | **(3,864)** | **885** |

### 12.3 Value of financial assets and liabilities

**Carried at fair value**

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

**Financial assets (Available for Sale) measured at fair value**

| | As at 31/03/2016 £'000 | As at 31/03/2017 £'000 |
|---|---|---|
| Equity in Whitefriars Canterbury Unit Trust | 0 | 78,750 |
| **Total** | **0** | **78,750** |

**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 2017 were between 1.03% and 2.54% depending on the maturity date of the loan.

i) No early repayment or impairment is recognised.

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

The fair values calculated by Arlingclose our treasury advisors;

| March 2016 | | | March 2017 | |
|---|---|---|---|---|
| **Carrying Amount £'000** | **Fair Value £'000** | | **Carrying Amount £'000** | **Fair Value £'000** |
| | | **Long term borrowing** | | |
| 102,145 | 113,340 | Financial Liabilities PWLB loans | 172,229 | 200,691 |
| 2,003 | 2,057 | Financial Liabilities - Other bonds and mortgages | 2,002 | 2,088 |
| | | **Short term borrowing** | | |
| 4,761 | 4,931 | Financial Liabilities - temporary loans | 7,193 | 7,893 |

The fair value is higher than the carrying amount because the council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the balance sheet date including three old loans totalling £2.5m with rates of 7.625%, 10.25% and 10.5% which account for a fair value of £3,802k higher than the carrying amount. Further, the commitment to pay interest above current market rates on the other loans increases the amount that the authority would have to pay if the lender requested or agreed to early repayments of the loans.

| 31 March 2016 | | | 31 March 2017 | |
|---|---|---|---|---|
| **Carrying Amount £'000** | **Fair Value £'000** | | **Carrying Amount £'000** | **Fair Value £'000** |
| | | **Investments** | | |
| 10,411 | 10,417 | Loans and receivables - banks and building societies | 10,011 | 10,018 |
| **10,411** | **10,417** | | **10,011** | **10,018** |

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 12.1. The fair value of these is equivalent to the nominal value as they are short term liquid assets.

### 12.4 Nature and extent of risks arising from financial instruments

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

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

The Council’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management in relation to treasury management is reviewed throughout the year, under policies approved by the Council in the annual treasury management strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

**Credit risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure to the authority's customers. Deposits are only made with banks and financial institutions if they are rated with a minimum score of F1. The Treasury Management Strategy sets out the lending limits to any single counter party, these are based on the assessed risks and vary between £2 million and £10 million. The strategy for 2016/17 (as amended) was agreed by Council on 21 April 2016 and 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 all of which has now been returned.

The Council also had £2m invested with Glitnir, all of which has been returned. In June 2016 the council participated in a currency exchange auction for the balance of the funding held in the escrow account. The sale price achieved was Kr190/ Euro, resulting in the return of £440,388. This sale marks the end of the investments held in Iceland.

**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 (£10m) are due to be paid within 6 months. The long term debts are due for repayment in accordance with the loan agreements.

**Refinancing and Maturity Risk**

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

However £99.4m 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 2016 £'000** | **Source of Loan** | **Range of interest rates payable %** | **31 March 2017 £'000** |
|---|---|---|---|
| 102,145 | Public Works Loan Board | 2.00 - 10.50 | 172,229 |
| 2,003 | Other bonds and mortgages | 2.00 - 5.625 | 2,002 |
| **104,148** | Total Long term borrowing | | **174,230** |
| | Analysis of loans by maturity is: | | |
| 4,827 | Maturing in 1-2 years | | 6,675 |
| 15,393 | Maturing in 2-5 years | | 23,276 |
| 30,356 | Maturing in 5-10 years | | 44,919 |
| 53,572 | Maturing in over 10 years | | 99,361 |
| **104,148** | Total Long term borrowing | | **174,230** |

**Market Risk**

Interest rate risk

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

- borrowings at variable rates – the interest expense charged to the surplus or deficit on the provision of services will rise
- borrowings at fixed rates – the fair value of the liabilities/borrowings will fall
- investments at variable rates – the interest income credited to the surplus or deficit on the provision of services will rise
- investments at fixed rates – the fair value of the assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the surplus or deficit on the provision of services or other comprehensive income and expenditure account. However changes in interest payable and receivable on variable rate borrowings and investments (if the Council had any) would be posted to the surplus or deficit on the provision of services and affect the General Fund balance.

Investments or borrowings at variable interest rates are potentially most affected by interest rate risk; this Council does not have any such financial instruments, other than overnight deposits, and have thus mitigated much of this risk. The Council's investments are held at fixed rates and are due to mature within 1 year. The interest rate risk relates to the reinvestment of these deposits when they mature, if interest rates should change and the refinancing of the shorter-date borrowings when they mature if rates should have risen by then. The risk to the authority of investing at a fixed rate is minimised by investing for maximum of one year.

**General Fund Borrowing**

£99.4m of the Council's borrowing is fixed at periods in excess of 10 years.

### 12.5 Investments

| Carrying Amount at 31 March 2016 | Investment type | Carrying amount | | | Total 31 March 2017 | Fair Value at 31 March 2017 |
|---|---|---|---|---|---|---|
| | | Nominal Value | Accrued Interest | Impair-ment | | |
| £'000 | **Internally Managed** | £'000 | £'000 | £'000 | £'000 | £'000 |
| 356 | Glitnir Bank - remaining deposit | 0 | 0 | 0 | 0 | 0 |
| 10,061 | Other Banks - fixed deposits | 10,000 | 11 | | 10,011 | 10,018 |
| 0 | Other Accrued interest | 0 | 0 | 0 | 0 | 0 |
| **10,417** | | **10,000** | **11** | **0** | **10,011** | **10,018** |

The Council obtained £198,000 interest on its investments (excluding Icelandic banks) in 2016/17 (£224,000 in 2015/16) – an average interest rate of 0.38% (0.53% in 2015/16).

### 13 Long term debtors

| Balance at 1 April 2016 £'000 | Category | Advances £'000 | Repayments £'000 | Write-Offs £'000 | Balance at 31 March 2017 £'000 |
|---|---|---|---|---|---|
| | **Soft loans (Misc loans)** | | | | |
| 4,184 | Actual amount outstanding | 0 | (470) | 0 | 3,714 |
| (178) | Adjustments to fair value | 0 | 32 | 0 | (146) |
| 4,006 | **Soft loans - Fair value** | 0 | (438) | 0 | 3,568 |
| 0 | Mortgages | 0 | 0 | 0 | 0 |
| 2 | Housing Act Advances | 0 | 0 | 0 | 2 |
| 223 | East Kent Housing loan | 0 | (37) | 0 | 186 |
| 254 | Shared Service Reserves | 0 | (32) | 0 | 222 |
| **4,485** | **Total** | **0** | **(508)** | **0** | **3,978** |

The balance for Soft Loans at 31 March 2017 of £3,714m has been reduced downwards by £147k (contra the Financial Instruments adjustment account) to a 'fair value' of £3.567m using a discounted cash flow calculation, to reflect the interest charged is below market rates or where interest is at the market rate a credit default risk of 1% has been used.

## 14 Short term debtors

| 31 March 2016 £'000 | Category | 31 March 2017 £'000 |
|---|---|---|
| 6,055 | Other entities and individuals | 8,322 |
| 1,783 | Central government bodies | 1,681 |
| 1,373 | Other local authorities | 972 |
| 225 | Public Corps & Trading Funds | 107 |
| **9,436** | **Total** | **11,083** |
| | **Impairment of debt** | |
| (315) | Local tax payers | (426) |
| (488) | Housing | (548) |
| (1,663) | Benefits | (1,701) |
| (451) | Penalty charges notices & other provisions | (413) |
| **(2,918)** | **Total** | **(3,088)** |
| **6,518** | **Total short term debtors** | **7,994** |

### 14.1 Age of Debt

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

| 31 March 2016 | | | | 31 March 2017 | | |
|---|---|---|---|---|---|---|
| General £'000 | HRA £'000 | Total £'000 | Age of Debt | General £'000 | HRA £'000 | Total £'000 |
| 1,615 | 36 | **1,651** | 0 to 30 days | 1,583 | 259 | **1,842** |
| 141 | 2 | **144** | 31 to 60 days | 25 | 2 | **28** |
| 42 | 1 | **43** | 61 to 90 days | (3) | 5 | **2** |
| 36 | 4 | **40** | 91 to 120 days | 33 | 3 | **36** |
| 316 | 55 | **371** | Over 120 days | 268 | 72 | **340** |
| **2,150** | **99** | **2,249** | **Total** | **1,906** | **341** | **2,248** |

**Collectability of debt**

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

## 15 Cash and cash equivalents

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

| 31 March 2016 £'000 | Balance (inc accruals) | 31 March 2017 £'000 |
|---|---|---|
| 20,974 | Bank overnight deposits | 32,031 |
| 1,176 | Cash in hand | 1,081 |
| 22,150 | | 33,111 |
| (1,384) | Bank overdraft | (426) |
| **20,766** | | **32,685** |

## 16 Creditors

| 31 March 2016 £'000 | Category<br>Sundry creditors | 31 March 2017 £'000 |
|---|---|---|
| (1,854) | Central government bodies | (1,120) |
| (4,431) | Other Local Authorities | (8,918) |
| (6,715) | Other entities & individuals | (6,761) |
| **(13,000)** | **Total** | **(16,799)** |

## 16.1 Deposits and Receipts in Advance

The balance for deposits and receipts in advance of £4,952k is predominantly advance tickets sales for performances at the Marlowe Theatre of £4,095k (2015/16 total £3,877k of which £3,335k related to the Marlowe Theatre advance ticket sales).

## 17 Usable Reserves

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

## 18 Unusable Reserves

| Reserve | Balance at 1 April 2016 £'000 | Net movement in year £'000 | Balance 31 March 2017 £'000 | Purpose of reserve |
|---|---|---|---|---|
| Revaluation Reserve | (148,136) | (48,601) | (196,736) | Store of gains on revaluation of fixed assets, not yet realised through sales see note 18.1 for details |
| Capital Adjustment Account | (226,882) | (1,907) | (228,788) | Store of capital resources set aside to meet past expenditure see note 18.2 for details |
| Financial Instrument Adjustment Account | 466 | (13) | 452 | Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowing and investments. |
| Available for Sale assets reserve | 0 | 134 | 134 | Represents the price flucation of the available for sale assets as at 31 March. |
| Pensions Reserve | 83,254 | 3,680 | 86,934 | Balancing account to allow inclusion of Pensions Liability in the Balance Sheet. See note 18.3 for details |
| Collection Fund Adjustment Account | 1,667 | (3,242) | (1,575) | Resources available to meet future precept payments re City Council share only |
| Short-term accumulating absences account | 197 | 4 | 201 | Represents accrual of holiday entitlement carried forward at year end |
| Total | **(289,433)** | **(49,945)** | **(339,378)** | |

### 18.1 Revaluation Reserve

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

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

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

| 31 March 2016 £'000 | Category | General Fund £'000 | Housing £'000 | 31 March 2017 £'000 |
|---|---|---|---|---|
| (107,325) | Balance at 1 April | (49,230) | (98,905) | (148,136) |
| (38,659) | Upward revaluation of assets | (8,480) | (38,516) | (46,996) |
| 1,337 | Downward revaluation of assets and impairment losses not charged to Surplus/Deficit on provision of services | 1,134 | 0 | 1,134 |
| (37,322) | | (7,346) | (38,516) | (45,862) |
| (3,249) | Depreciation written out on revaluations of PPE | 0 | (3,442) | (3,442) |
| (40,571) | (Surplus)/deficit on revaluation of assets not posted to the surplus or deficit on the provision of services per CIES. | (7,346) | (41,958) | (49,304) |
| | **Transfers to Capital Adjustment Account (note 18.2)** | | | |
| 737 | Write-out the revaluation gains previously recognised for assets disposed of in current year. | 1,540 | 0 | 1,540 |
| (39,834) | **(Surplus)/defict on revaluation of PPE** | (5,806) | (41,958) | (47,764) |
| (977) | Difference between fair value depreciation and historical cost depreciation following revaluations | (844) | 7 | (837) |
| (40,811) | Total movement in reserve in the year | (6,650) | (41,951) | (48,601) |
| **(148,136)** | **Balance at 31 March** | **(55,880)** | **(140,856)** | **(196,736)** |

### 18.2 Capital Adjustment Account

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

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

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

| 2015/16 Total £'000 | Capital Adjustment Account | General Fund £'000 | Housing £'000 | 2016/17 Total £'000 |
|---|---|---|---|---|
| | **Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement** | | | |
| | **Charges for depreciation and impairment** | | | |
| (230,111) | Balance at 1 April | (141,236) | (85,646) | (226,882) |
| 8,853 | Charges for depreciation and impairment of non-current assets | 4,984 | 3,899 | 8,883 |
| 12,094 | Revaluation of Property, Plant and Equipment | (1,879) | 3,866 | 1,987 |
| 379 | Revenue expenditure funded from capital under statute | 479 | 0 | 479 |
| 1,832 | Amounts of non-current assets written off on disposal/sale as part of gain/loss on disposal to CIES | 585 | 1,446 | 2,031 |
| 23,158 | | 4,169 | 9,211 | 13,380 |
| 977 | Adjusting amounts written out to Revaluation Reserve | 844 | (7) | 837 |
| 24,135 | **Net written out amount of the cost of non-current assets consumed in the year.** | 5,012 | 9,205 | 14,217 |
| | **Capital financing applied in the year** | | | |
| (3,551) | Use of the Capital Receipts Reserve to finance new capital expenditure | (2,651) | (1,812) | (4,463) |
| (6,741) | Use of the Major Repairs Reserve to finance new capital expenditure | 0 | (236) | (236) |
| (874) | Capital grants and contributions credited to the CIES that have been applied to capital financing | (462) | 0 | (462) |
| (2,274) | Statutory provision for the financing of capital charged to the General Fund and HRA balances | (3,395) | 0 | (3,395) |
| (3,198) | Capital expenditure charged against the General Fund and HRA balances | (3,103) | 0 | (3,103) |
| (16,637) | | (9,611) | (2,048) | (11,659) |
| | **Movement in the year** | | | |
| 0 | Movement in the market value of Investment Properties debited or credited to the Comp Income and Exp Stmt | 31 | 0 | 31 |
| (4,359) | HRA loan repayment | 0 | (4,580) | (4,580) |
| 91 | Repayments of soft loans and housing act advances | 85 | 0 | 85 |
| **(226,882)** | **Balance at 31 March** | **(145,719)** | **(83,069)** | **(228,788)** |

## 18.3 Pensions Reserve

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

| 2015/16 £'000 | | 2016/17 £'000 |
|---|---|---|
| 88,050 | **Balance at 1 April** | 83,254 |
| (7,286) | Remeasurements of the net defined benefit liability | 1,377 |
| 6,585 | Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the Comprehensive I&E Statement | 6,533 |
| (4,095) | Employer's pension contributions and direct payments to pensioners payable in the year | (4,230) |
| **83,254** | **Balance at 31 March** | **86,934** |

## 19 Cash flow statement – operating activities

The cash flows for operating activities include the following items:

| 2015/16 £'000 | | 2016/17 £'000 |
|---|---|---|
| 2,959 | Interest paid | 2,220 |
| (884) | Investment income received | (2,510) |
| **2,075** | Total | **(290)** |

Full details of investing and financing activities are included in the main cash flow statement itself. The purchase of investments of £30m shown in the cash flow relates to three individual investments of the same £10m within the year.

## 20 Grant Income

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

| 2015/16 £'000 | Taxation and non-specific grant Income<br>a) General government grants | 2016/17 £'000 |
|---|---|---|
| (3,238) | Revenue Support Grant | (1,994) |
| 54 | Council Tax support passported to Parish Councils | 0 |
| (5,884) | Non-domestic rates income and expenditure | (4,290) |
| (3,016) | New homes bonus | (3,314) |
| **(12,084)** | **Total of general government grants** | **(9,598)** |
| | **b) Recognised capital grants and contributions** | |
| (2,416) | Grants and contributions | 1,594 |
| **(2,416)** | **Total of recognised capital grants and contributions** | **1,594** |

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

| 2015/16 | Credited to Services | 2016/17 |
|---|---|---|
| £'000 | a) 'True' revenue grants | £'000 |
| (30,512) | Rent allowances | (29,824) |
| (16,553) | Rent rebates | (16,119) |
| (713) | Benefits administration | (628) |
| (232) | NDR | (233) |
| (583) | Other revenue grants | (809) |
| (48,594) | | (47,612) |
| | b) Grants re Revenue expenditure funded by grants under Statute (REFCUS) | |
| (568) | Housing specified grant for disabled facilities | (785) |
| (477) | Environment Agency (coast and flood protection) | (2) |
| (169) | Other grants | 0 |
| **(49,808)** | **Total to general government grants** | **(48,399)** |

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

## 21 External Audit Costs

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

| 2015/16 | | 2016/17 |
|---|---|---|
| £'000 | | £'000 |
| 56 | External audit services carried out by the appointed auditor | 55 |
| 22 | Certification of grant claims and returns | 18 |
| **78** | **Total** | **73** |

## 22 Councillors' Allowances

The total of councillors' allowances paid in the year was £296,598 (2015/16 - £313,611).

Details can be found on our website: https://www.canterbury.gov.uk/media/874169/councillors-expenses-allowances-paid.pdf

## 23 Officers' Emoluments

The number of employees whose remuneration including termination payments, but excluding employer's pension contributions, was over £50,000, in bands of £5,000 are shown in the following table.

| Number of employees 2015/16 | Remuneration band | Number of employees 2016/17 |
|---|---|---|
| 9 | £50,000 - £54,999 | 7 |
| 6 | £55,000 - £59,999 | 5 |
| 5 | £60,000 - £64,999 | 6 |
| 2 | £65,000 - £69,999 | 5 |
| 1 | £70,000 - £74,999 | 2 |
| 0 | £75,000 - £79,999 | 2 |
| 1 | £80,000 - £84,999 | 0 |
| 4 | £85,000 - £89,999 | 2 |
| 0 | £90,000 - £94,999 | 0 |
| 1 | £95,000 - £99,999 | 0 |
| 0 | £100,000 - £104,999 | 1 |
| 1 | £105,000 - £109,999 | 2 |
| 1 | £110,000 - £114,999 | 0 |
| 0 | £115,000-£119,999 | 1 |
| **31** | **Total** | **33** |

### 23.1 Senior Officers' Emoluments

This note reports the details of officers with statutory responsibilities and those reporting direct to the Chief Executive or part of Senior Management Team. The lowest full-time pay rate on the Council's salary scale is £15,906 therefore the test of the most senior salary not exceeding 20 times this rate is comfortably met.

| 2015/16 | | | | 2016/17 | | |
|---|---|---|---|---|---|---|
| **Salaries fees & allowances** | **Pension Contribution** | **Total** | **Statutory Officers** | **Salaries fees & allowances** | **Pension Contribution** | **Total** |
| **£'000** | **£'000** | | | **£'000** | **£'000** | **£'000** |
| 112 | 16 | 128 | Head of paid service - Chief Executive | 113 | 16 | 129 |
| 99 | 13 | 112 | Chief Financial Officer - Director of Resources | 100 | 13 | 113 |
| 75 | 10 | 85 | Head of Legal Services | 106 | 6 | 112 |
| 0 | 0 | 0 | Interim Head of Legal Services | 39 | 0 | 39 |
| | | | **Non Statutory Directors** | | | |
| 107 | 14 | 121 | Deputy Chief Executive | 108 | 14 | 122 |
| 89 | 11 | 100 | Assistant Director - Direct Services | 66 | 9 | 75 |
| 87 | 11 | 98 | Assistant Director - Commissioned Services | 87 | 12 | 99 |
| 87 | 11 | 98 | Assistant Director - Planning & Regeneration | 87 | 12 | 99 |
| 86 | 11 | 97 | Assistant Director - Strategy & Democracy | 80 | 11 | 91 |
| 83 | 11 | 94 | Assistant Director - Finance & Procurement | 80 | 11 | 91 |
| **825** | **108** | **933** | **Total** | **866** | **104** | **970** |

There were no other bonuses paid or receivable, no expenses allowance chargeable to UK tax paid or receivable, no amount of any compensation for loss of employment paid or receivable plus any other payment in connection with termination of employment paid to any of the above.

**24 Exit Packages and Termination Benefits**

The Council terminated the contracts of a number of employees in 2016/17, incurring liabilities of £156,000 (£214,000 in 2015/16). The total in 2016/17 is in respect of 5 officers from various divisions within the Council who received exit packages as part of the Council's ongoing rationalisation of services. Payments include all payments for redundancy, compromise agreements, pension costs incurred and pay-in-lieu of notice. The total cost of these exit packages is analysed in bands of £20,000 below:

| 2015/16 | | | | 2016/17 | | |
|---|---|---|---|---|---|---|
| Number of Packages | Type of exit package | Total cost £'000 | Band | Number of Packages | Type of exit package | Total cost £'000 |
| 2 | Compulsory Redundancy | 26 | £0 - | 1 | Compulsory Redundancy | 7 |
| 0 | Other | 0 | £20,000 | 1 | Other | 2 |
| 1 | Compulsory Redundancy | 26 | £20,0001 - | 1 | Compulsory Redundancy | 21 |
| 0 | Other | 0 | £40,000 | 0 | Other | 0 |
| 2 | Compulsory Redundancy | 101 | £40,001 - | 0 | Compulsory Redundancy | 0 |
| 0 | Other | 0 | £60,000 | 0 | Other | 0 |
| 1 | Compulsory Redundancy | 61 | Over | 1 | Compulsory Redundancy | 66 |
| 0 | Other | 0 | £60,001 | 1 | Other | 60 |
| 6 | | 214 | | 5 | | 156 |

**25 Related Party Transactions**

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

Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in note 20 (above) – both credited to services and credited to taxation and non-specific grant income. Grant receipts outstanding are also shown in this note.

Councillors

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

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

East Kent Housing Limited

The council has a 25% share of East Kent Housing Ltd, an Arms Length Management Organisation. Payment of £3,010,000 was made in 2016/17 to East Kent Housing in respect of management fees. The council received £198,000 from East Kent Housing in respect of service level agreements and services supplied. The council paid £85,000 to East Kent Housing in respect of services received. Balances due to and from East Kent Housing at 31 March 2017 were £27,000 and £47,000 respectively. There was a close family relationship between a senior officer of the council and EKH for the start of the financial year.

Precepting authorities

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

| | Payments CTax £'000 | Payments NNDR £'000 | Receipts NNDR £'000 | Other Payments £'000 |
|---|---|---|---|---|
| Kent County Council precept | 55,616 | 4,478 | (457) | 0 |
| Kent and Medway Fire Authority precept | 3,534 | 498 | (51) | 0 |
| Police & Crime Commissioner for Kent precept | 7,464 | 0 | 0 | 0 |
| Kent County Council Pension Fund | 0 | 0 | 0 | 3,929 |

## 26 Private Finance Initiative (PFI)

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

As part of the agreement, Canterbury City Council donated two properties on a leasehold basis: King Edward Court, Herne Bay, valued at £1,400k and Brymore Road Garages, Canterbury, valued at £429k. The Council retains ownership of the freehold of both properties and receives a peppercorn rent for the use of the properties.

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

## 27 Impairment losses

Impairment losses on Property, Plant and Equipment which are charged to the surplus or deficit on the provision of services are shown in note 10 to the financial statements. Impairment losses on financial assets are shown in the financing and investment section of the Comprehensive Income and Expenditure Statement.

## 28 Pension Costs

**Participation in pension schemes**

As part of the terms and conditions of its officers and other employees, the Council offers retirement benefits. Although these will not be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlements.

The Council participates in the Local Government Pensions Scheme administered by Kent County Council. This is a defined benefit statutory scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. The scheme makes payments in the year to retired officers.

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

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

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

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

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

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

### 28.1 Transactions relating to retirement benefits

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

| 2015/16 £'000 | Transactions in the Comprehensive Income and Expenditure Statement | 2016/17 £'000 |
|---|---|---|
| | **Cost of Services** | |
| 3,639 | Current Service cost | 3,550 |
| 0 | Past Service costs | 0 |
| 118 | Settlements and Curtailments | 77 |
| 71 | Administrative expense | 65 |
| | **Financing and Investment income and expenditure** | |
| 2,757 | Net interest expense | 2,841 |
| **6,585** | **Total retirement benefit charged to the Surplus or Deficit on the provision of services** | **6,533** |
| | **Other retirement benefit charged to the Comprehensive Income and Expenditure statement** | |
| | Remeasurement of the net defined benefit liability comprising: | |
| 2,149 | Return on plan assets (exc net interest expense amount) | (17,617) |
| 0 | Actuarial changes in demographic assumptions | (4,320) |
| (9,345) | Actuarial changes in financial assumptions | 32,500 |
| 0 | Other actuarial (gains)/losses on assets | 203 |
| (90) | Experience gain/loss on defined benefit obligation | (9,389) |
| **(7,286)** | **Total retirement benefit charged to the other Comprehensive** | **1,377** |
| **(701)** | **Total charged to the Comprehensive Income and Expenditure Statement** | **7,910** |
| | **Movements in Reserves Statement** | |
| (6,585) | Reversal of net charges for retirement benefits in accordance with the code to the Surplus or Deficit for the provision of services | (6,533) |
| | **Actual amount charged against the General Fund Balance for pensions in the year** | |
| 3,775 | Employer contributions payable to the scheme | 3,929 |
| 320 | Unfunded benefits paid | 301 |

### 28.2 Pensions Assets and Liabilities recognised in the Balance Sheet

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

| 2016 £'000 | Net Pension Liability as at 31 March in Balance Sheet | 2017 £'000 |
|---|---|---|
| 181,036 | Present value of the defined benefit obligation | 204,463 |
| (101,764) | Less fair value of plan assets | (121,563) |
| **79,272** | **Sub-total** | **82,900** |
| 3,982 | Other movements in the liability | 4,034 |
| **83,254** | **Net liability arising from the defined benefit obligation** | **86,934** |

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

| 2015/16 £'000 | Movement in Fair Value of scheme assets | 2016/17 £'000 |
|---|---|---|
| **102,465** | **Opening fair value of scheme assets at 1 April** | **101,764** |
| 3,251 | Interest income | 3,543 |
| | Remeasurement gain/(loss): | |
| (2,149) | Return on plan assets (exc amount in net interest expense) | 17,617 |
| 0 | Other actuarial gains/(losses) | (203) |
| (71) | Administrative expenses | (65) |
| 4,095 | Employer Contribution | 4,230 |
| 830 | Employee Contribution | 870 |
| (6,657) | Estimated Benefits paid | (6,193) |
| **101,764** | **Closing fair value of scheme assets at 31 March** | **121,563** |

### 28.4 Reconciliation of Present Value of the Scheme Liabilities

| 2015/16 £'000 | Movement in Defined Benefit Obligation ('Scheme Liabilities') | 2016/17 £'000 |
|---|---|---|
| **(190,515)** | **Opening balance at 1 April** | **(185,018)** |
| (3,639) | Current service cost | (3,550) |
| (6,008) | Interest cost of pension scheme liabilities | (6,384) |
| (830) | Employee Contributions | (870) |
| | Remeasurement gains and losses: | |
| 0 | Actuarial gains/(losses) from demographic assumption changes | 4,320 |
| 9,345 | Actuarial gains/(losses) from financial assumption changes | (32,500) |
| 90 | Experience gain/(loss) on defined benefit obligation | 9,389 |
| (118) | Past service cost including curtailments | (77) |
| 320 | Unfunded pension payments | 301 |
| 6,337 | Estimated benefits paid | 5,892 |
| **(185,018)** | **Closing balance at 31 March** | **(208,497)** |

### 28.5 Local Government Pension Scheme Assets Comprised:

| 2015/16 £'000 | Pension Scheme Assets | 2016/17 £'000 |
|---|---|---|
| 2,620 | **Cash** *(no quoted market price in an active market)* | 3,106 |
| 67,864 | **Equity instruments** | 85,792 |
| | **Bonds** | |
| 902 | - Gilts *(no quoted market price in an active market)* | 907 |
| 11,174 | - Other | 11,842 |
| 14,782 | **Property** *(no quoted market price in an active market)* | 15,148 |
| 4,422 | **Target Return Portfolio** | 4,768 |
| **101,764** | **Total Assets** | **121,563** |

### 28.6 Local Government Pension Scheme Assets Breakdown

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

| | 2016/17 | |
|---|---|---|
| | **% Quoted** | **% Unquoted** |
| **Fixed Interest Government Securities** | | |
| UK | - | - |
| Overseas | 0.7% | - |
| | | |
| **Index Linked Government Securities** | | |
| UK | - | - |
| Overseas | - | - |
| | | |
| **Corporate Bonds** | | |
| UK | 4.6% | - |
| Overseas | 5.1% | - |
| | | |
| **Equities** | | |
| UK | 29.0% | - |
| Overseas | 39.1% | - |
| | | |
| **Property** | | |
| All | - | 12.5% |
| | | |
| **Others** | | |
| Absolute return portfolio | 3.9% | - |
| Hedge fund | - | - |
| Private Equity | - | 1.5% |
| Infrastructure | - | 1.1% |
| Cash/Temporary Investments | - | 2.1% |
| | | |
| **Net Current Assets** | | |
| Debtors | - | 0.7% |
| Creditors | - | (0.3%) |
| | | |
| **Total** | **82.5%** | **17.5%** |

**28.7 Basis for Estimating Assets and Liabilities**

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

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

The significant assumptions used by the actuary have been:

| | 2016/17<br>£'000 | 2015/16<br>£'000 |
|---|---|---|
| *Mortality assumptions:* | | |
| Longevity at 65 for current pensioners | | |
| - Men | 23.0 | 22.9 |
| - Women | 25.0 | 25.3 |
| Longevity at 65 for future pensioners | | |
| - Men | 25.1 | 25.2 |
| - Women | 27.4 | 27.7 |
| *Rate of inflation (RPI)* | 3.5% | 3.2% |
| *Rate of inflation (CPI)* | 2.6% | 2.3% |
| *Rate of increased salaries* | 4.1% | 4.1% |
| *Rate of increase in pensions* | 2.6% | 2.3% |
| *Rate for discounting scheme liabilities* | 2.7% | 3.5% |

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

| **Sensitivity Analysis** | **£'000** | **£'000** | **£'000** |
|---|---|---|---|
| **Adjustment to discount rate** | +0.1% | 0.0% | -0.1% |
| Present Value Total Obligation | 205,084 | 208,497 | 211,970 |
| Projected Service Cost | 4,545 | 4,655 | 4,767 |
| | | | |
| **Adjustment to long term salary increase** | +0.1% | 0.0% | -0.1% |
| Present Value Total Obligation | 208,845 | 208,497 | 208,151 |
| Projected Service Cost | 4,655 | 4,655 | 4,655 |
| | | | |
| **Adjustment to pension increases & deferred revaluation** | +0.1% | 0.0% | -0.1% |
| Present Value Total Obligation | 211,622 | 208,497 | 205,423 |
| Projected Service Cost | 4,767 | 4,655 | 4,545 |
| | | | |
| **Adjustment to mortality age rating assumption** | +1 year | none | -1 year |
| Present Value Total Obligation | 216,717 | 208,497 | 200,598 |
| Projected Service Cost | 4,803 | 4,655 | 4,511 |

### 28.8 Impact on the Council's Cashflow

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

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England

and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Council anticipates to pay £3,833,000 expected contributions to the scheme in 2017/18.

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

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

## 29 Operating leases payable

During 2011/12 the Council acquired more than an insignificant amount of use of the leisure facilities at Herne Bay High School for 25 years, in return for a payment of £2.4m. This arrangement is being treated as an operating lease payment of £98,000 in 2016/17, (£98,000 for 2015/16).

The future cash payments required under these leases are:

| Details of period | As at 31 March 2017 £'000 | As at 31 March 2018 £'000 |
|---|---|---|
| Not later than one year | 98 | 98 |
| Later than one year and not later than five years | 390 | 390 |
| Later than five years | 1,326 | 1,229 |
| **Total** | **1,814** | **1,717** |

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

The total payments in respect of this contract were £1,185K for 2016-17

**Operating Leases receivable**

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

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

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

| As at 31 March 2016 £'000 | Details of period | As at 31 March 2017 £'000 |
|---|---|---|
| 91 | Not later than one year | 343 |
| 165 | Later than one year and not later than five years | 305 |
| 3,243 | Later than five years | 4,052 |
| **3,499** | **Total** | **4,700** |

## 30 Assets held under Finance Leases

The Council has not acquired any assets through finance leases since April 1990. All but one of the leases acquired before 1990 were for a primary period of five years. Since the outstanding obligation on the remaining lease is not material, it has 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 2017 has been included in the statements at a value of £2,316k with a corresponding long term liability for the same value. The assets will be depreciated over the life of the contract in line with the annual contract payments.

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

| **Minimum Lease Payments** | **As at 31 March 2017 £'000** |
|---|---|
| Not later than one year | 786 |
| Later than one year and not later than five years | 1,530 |
| Later than five years | 0 |
| **Total** | **2,316** |

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

| **31 March 2016 £'000** | | **31 March 2017 £'000** |
|---|---|---|
| 2,815 | Finance lease | 2,316 |
| 2 | Receipts in advance | 9 |
| **2,817** | | **2,324** |

## 31 Contingent Liability

At 31 March 2017, the council had the following contingent liability.

East Kent Housing Limited

From 1 April 2011, East Kent Housing Limited, 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 their housing stock. Canterbury retains ownership of its housing stock, but the ALMO has responsibility for Canterbury's day to day housing services management, East Kent Housing is a company limited by guarantee.

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

East Kent Housing Ltd's pension liability has increased from £7.3 million to £10.2 million at 31 March 2017. However, the company remains able to meet its current pension obligations and will not be making calls on the four owner councils towards its pensions contributions.

Following the revaluation the agreed employer’s contribution rate for 2016/17 was 15.4% of pensionable earnings (15.4% in 2015/16).

## 32 Interest in joint arrangements

The Council entered into an arrangement with Dover District Council and Thanet District Council for the provision of the ICT service, customer services and Revenue and Benefits service. The joint services are known as EK Services, and are hosted by Thanet District Council, with Dover and Canterbury councils paying a management fee for the services provided.

The 2016/17 financial statements contain a long term debtor of £222,000 which represents the Canterbury City Council element of the EK Services reserve.

## 33 Provisions

| | NNDR Appeals £'000 | Other Provisions £'000 | Total £'000 |
|---|---|---|---|
| **Balance at 31 March 2016** | (2,026) | (1,180) | (3,206) |
| Additional provisions made | (164) | 0 | (164) |
| Amounts used | 330 | 189 | 519 |
| Reversal of unused amounts | 0 | 4 | 4 |
| **Balance at 31 March 2017** | **(1,860)** | **(987)** | **(2,847)** |

**NNDR Appeals**
This provision is the Council's share of the provision for appeals against NNDR ratings. A legal decision regarding the valuation of purpose built doctor's surgeries has resulted in an increase in the appeals upheld for this property type. Due to the 2017 revaluation, the Valuation Office has a backlog of outstanding appeals, hence the current high provision.

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

**Housing Revenue Account Income and Expenditure Statement**

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

| 2015/16 £'000 | | 2016/17 £'000 |
|---|---|---|
| | **Income** | |
| (23,857) | Dwelling rents (gross) note 8 | (23,723) |
| (540) | Non-dwelling rents (gross) | (578) |
| (186) | Leaseholders charges for service and facilities | (193) |
| (1,425) | Other charges for services and facilites | (1,491) |
| 0 | Contributions towards expenditure | (112) |
| **(26,009)** | **Total Income** | **(26,097)** |
| | **Expenditure** | |
| 6,137 | Repairs and Maintenance | 5,892 |
| | **Supervision and management** | |
| 3,922 | General Management | 3,999 |
| 1,993 | Special Services | 2,130 |
| 312 | Rents, rates, council tax and insurance | 336 |
| 3,511 | Depreciation charges note 6 | 3,899 |
| 8,232 | Impairment of non-current assets note 7 | 3,871 |
| 39 | Debt management costs | 24 |
| 49 | Increase/(decrease) in provision for bad debts | 78 |
| **24,196** | **Total Expenditure** | **20,228** |
| (1,813) | Net cost of HRA Services as included in the Comprehensive Income and Expenditure Statement | (5,869) |
| 121 | HRA services share of Corporate and Democratic Core | 121 |
| **(1,691)** | **Net cost of HRA Services** | **(5,747)** |
| | **HRA share of the operating income and expenditure included in the comprehensive income and expenditure statement** | |
| (1,237) | Gain on sale of HRA fixed assets | (1,622) |
| 2,368 | Interest payable | 2,329 |
| | **Interest and investment income** | |
| (31) | Notional cash balances | (30) |
| 164 | Pensions interest cost and expected return on pension assets Note 10 | 129 |
| (509) | Capital grants and contributions receivable | 0 |
| **(936)** | **(Surplus)/Deficit for the year on HRA services** | **(4,940)** |

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

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

1) Capital investment is accounted for as it is financed, rather than when the non-current assets are consumed.
2) Retirement benefits are charged as amounts become payable to pensions funds and pensioners, rather than as future benefits are earned.

3) Impairment losses of £3,871,000 due to the assessed increase in council house values following capital works (multiplied by the social housing discount factor) being less than actual capital expenditure. These are all reversed out in the following statement.

**Movement on the HRA Statement**

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

| **2015/16 Net expenditure £'000** | | **2016/17 Net expenditure £'000** |
|---|---|---|
| (936) | Surplus (-)/Deficit for the year on the HRA Income and Expenditure Statement | (4,940) |
| 928 | Adjustments between accounting basis and funding basis by statute | (1,284) |
| (8) | Net increase (-)/decrease before transfers to or from reserves | (6,224) |
| (125) | Transfers to/from(-) reserves (see table below) | (2) |
| **(133)** | **Increase (-)/Decrease in HRA Balance for the year** | **(6,226)** |
| **(6,594)** | **Housing Revenue Account balance b/f at 1 April** | **(6,727)** |
| **(6,727)** | **Housing Revenue Account balance c/f at 31 March** | **(12,953)** |

## Movement on HRA Balance

| 2015/16 Net Expenditure £'000 | Items included in the HRA Income & Expenditure Account, but excluded from the movement on the HRA Balance for the year | 2016/17 Net Expenditure £'000 |
|---|---|---|
| (8,232) | Reversal of impairment losses - Note 7 | (3,866) |
| 4,359 | Reversal: HRA loan repayment | 4,580 |
| 509 | Capital grants and contributions applied | 0 |
| 0 | Change in fair value of HRA investment properties | 0 |
| 1,237 | Net gain on sale of HRA fixed assets | 1,622 |
| (7) | Difference between amounts charged to income and expenditure for premiums and discounts and the charge for the year determined by statute | (7) |
| 0 | Accrual for annual leave | (0) |
| (311) | Net charges made for retirement benefits in accordance with IAS 19 - Note 10 | (224) |
| **(2,444)** | | **2,104** |
| | Items not included in the HRA Income & Expenditure Account, but included in the movement on the HRA Balance for the year | |
| 3,229 | Transfers to/(from) major repairs reserve - Note 3 | (3,663) |
| 283 | Employer's contributions payable to Kent Pension Fund and retirement benefits payable direct to pensioners | 275 |
| (140) | Capital expenditure funded by the HRA - Note 4 | 0 |
| **3,372** | | **(3,388)** |
| **928** | **Net adjustments between accounting basis and funding basis under statute** | **(1,284)** |
| | **Transfers to/from reserves** | |
| (125) | Contribution to/(from) HRA subsidence and other reserves | (2) |
| **(125)** | **Transfers to/from reserves** | **(2)** |

## Notes to the Housing Revenue Account

### 1 Housing Stock

At 31 March 2017, the council was responsible for managing 5,155 units of accommodation:

| Type of property | Number of bedrooms | | | | Total |
|---|---|---|---|---|---|
| | One | Two | Three | Four | |
| Flats - low rise | 1,087 | 323 | 6 | 0 | **1,416** |
| Flats - medium rise | 319 | 350 | 63 | 3 | **735** |
| Flats - high rise | 63 | 68 | 0 | 0 | **131** |
| Houses and bungalows | 361 | 937 | 1,443 | 94 | **2,835** |
| Hostel places | 36 | 2 | 0 | 0 | **38** |
| Totals | 1,866 | 1,680 | 1,512 | 97 | **5,155** |

Plus 12 basic homes (shared ownership dwellings)

The movement in housing stock can be summarised as follows:

| | Stock movements | | | | | |
|---|---|---|---|---|---|---|
| | **Stock at 1 April 2016** | **Right to buy sales** | **Sale to RSL** | **Additions** | **Redns** | **Stock at 31 March 2017** |
| Flats | 2,276 | (5) | 0 | 11 | 0 | **2,282** |
| Houses and bungalows | 2,851 | (20) | 0 | 4 | 0 | **2,835** |
| Hostels | 38 | 0 | 0 | 0 | 0 | **38** |
| **Totals** | **5,165** | **(25)** | **0** | **15** | **0** | **5,155** |

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

| **2015/16 £'000** | **Operational assets** | **2016/17 £'000** |
|---|---|---|
| 272,065 | Dwellings | 308,160 |
| 2,293 | Garages | 2,618 |
| 872 | Community centres & communal open space | 879 |
| 387 | Land | 387 |
| 1,337 | Shops | 1,337 |
| **276,954** | **Total** | **313,381** |

## 2 Vacant possession value

The vacant possession value of dwellings within the HRA as at 31 March 2017 was £933,472,000. For the balance sheet, the figure has been reduced to 33% i.e. £308,160,000 (after adjusting for the shared equity property) to show existing use value as social housing, reflecting the economic cost of providing social housing.

## 3 Major Repairs Reserve

With effect from 1 April 2002, the Government required that the housing accounts are produced on a Resource Accounting basis. This requires that a charge is made for depreciation which is transferred to a separate Major Repairs Reserve, to finance HRA capital projects. Housing subsidy included a grant in the form of a Major Repairs Allowance (MRA) to resource the Major Repairs Reserve. This was ring fenced for capital expenditure of a housing nature. The housing business plan following self financing replaced the subsidy grant with an allowance for capital expenditure which also resources the Major Repairs Reserve.

| **2015/16 £'000** | **Major Repairs Reserve** | **2016/17 £'000** |
|---|---|---|
| 0 | Balance at 1 April | 0 |
| (3,511) | Transfer from capital adjustment account (HRA depreciation) | (3,899) |
| | Transfer to (-)/from HRA | |
| (3,229) | Voluntary transfer to/from MRR | 3,663 |
| 6,741 | Less: expenditure on dwellings financed from this reserve | 236 |
| **0** | **Balance at 31 March** | **0** |

## 4 Summary of Capital Financing

Capital expenditure of £7,048,000 was spent on housing assets within the HRA during the year. This was financed as follows:

| 2015/16 £'000 | Capital financing of HRA expenditure | 2016/17 £'000 |
|---|---|---|
| 6,741 | Major repairs reserve | 236 |
| 0 | Borrowing | 5,000 |
| 1,735 | Capital receipts | 1,812 |
| 649 | Capital grant & contributions | 0 |
| **9,124** | **Total** | **7,048** |

## 5 Summary of Capital Receipts

Housing capital receipts during 2016/17 were as follows:

| 2015/16 £'000 | Housing capital receipts | 2016/17 £'000 |
|---|---|---|
| (2,772) | Dwelling sales (net of administration deduction) | (3,010) |
| 0 | Other sales | (21) |
| (3) | Mortgage repayments and discounts repaid | (0) |
| **(2,775)** | **Total** | **(3,031)** |

## 6 Depreciation of non-current assets

Depreciation of £3,899,000 was charged to the HRA. This comprises of £3,824,000 for dwellings and £75,000 for non-dwelling housing assets.

## 7 Impairment of non-current assets

There was an overall impairment of £3,871,000 being the difference between £7,048,000 housing capital expenditure and the assessed net increase in effective value of £3,177,000. An adjustment to correct a 2015/16 revaluation adjustment of £5,000 between the general fund and HRA is reflected in the overall revaluation amount of £3,866.000.

## 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 £92.51 per payment week in 2016/17 (£93.39 in 2015/16). Rents were decreased on 1 April 2016 by an average of £0.88 per payment week.

## 9 Rent Arrears

The rent arrears figures are as follows:

| 2015/16 £'000 | | 2016/17 £'000 |
|---|---|---|
| 547 | Gross rent arrears at 31 March | 577 |
| (279) | Repayments of rent | (250) |
| 268 | Net rent arrears at 31 March | 328 |
| 485 | Provision for bad debts at 31 March | 548 |
| % | | % |
| 2.3 | Gross rent arrears as a proportion of gross dwelling rent income | 2.4 |

## 10 HRA share of pensions

Under IAS19 there is a requirement to analyse the movement in the HRA share of the City Council's element of the Kent pension fund (see also note 28 to the core financial statements). However, so that there is no demand on housing rents, the entries are reversed out via the Pensions Reserve. The figures are as follows:

| 2015/16 £'000 | | 2016/17 £'000 |
|---|---|---|
| 117 | HRA share of current service cost less employer contributions | 83 |
| (253) | HRA share of past service cost less employer contributions | (262) |
| (136) | Adjustment to 'General Management' line of HRA statement | (179) |
| 164 | HRA share of pensions interest cost and expected return on | 129 |
| 28 | Pensions assets | (50) |
| (311) | Net charges made for retirement benefits in accordance with IAS 19 | (225) |
| 283 | Employer's contributions payable to the Kent Pension Fund and retirement benefits payable direct to pensioners | 275 |
| (28) | HRA share of contributions to/from Pensions Reserve | 50 |
| **0** | **Net effect on HRA balance** | **0** |

## 11. Interests in Companies – East Kent Housing Limited

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

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

The 2015/16 position has been restated to reflect the final audit position of EKH. The restatement has had a minimal impact on the CCC position.

The financial (unaudited) results of the company for 2016/17 and the council's share are as follows:

| 2015/16 Restated East Kent Housing Ltd £'000 | 2015/16 Restated CCC Share (25%) £'000 | | 2016/17 East Kent Housing Ltd £'000 | 2016/17 CCC Share (25%) £'000 |
|---|---|---|---|---|
| 8,760 | 2,190 | Turnover | 8,653 | 2,163 |
| (9,629) | (2,407) | Expenses | (9,554) | (2,389) |
| (869) | (217) | Operational profit/(loss) | (901) | (225) |
| (1,155) | (289) | Profit/(loss) after taxation | (1,191) | (298) |
| 1,855 | 464 | Other comprehensive income and (expenditure) | (1,927) | (482) |
| 700 | 175 | Total comprehensive profit/(loss) for the year | (3,118) | (780) |
| 406 | 102 | Non-current assets | 658 | 165 |
| 1,699 | 425 | Current assets | 964 | 241 |
| (893) | (223) | Current liaibilities | (806) | (202) |
| (7,984) | (1,996) | Non-current liabilities | (10,706) | (2,677) |
| (444) | (111) | Profit and loss reserve | (171) | (43) |
| (114) | (29) | Capital contribution | (114) | (29) |
| 7,330 | 1,833 | Pensions reserve | 10,175 | 2,544 |

The council's investment in the company is nominal.

Note 25 Related Party Transactions sets out the transactions that took place between the council and East Kent Housing Ltd over 2016/17. Note 31 Contingent Liabilities describes the guarantee the council has entered into with East Kent Housing Ltd over certain pension obligations.

The council's management fee payment of £3,010,000 is 35% of East Kent Housing Ltd.'s turnover of £8,653,000, which broadly equates to the council's pro-rata share of the total council housing stock managed by the company.

Impact of employee benefits (IAS19)

The council does not have a constructive obligation for a share of the pension fund liability, so this liability is being recognised as a contingent liability in the accounts.

East Kent Housing have made a late adjustment to their accounts of £190k which is wholly attributable to Canterbury City Council. As this amount is not material to these financial statements, no adjustments have been made in 2016/17.

## The Collection Fund

### Income and Expenditure Account

| 2015/16 £'000's CTAX | 2015/16 £'000's NNDR | Income & Expenditure Account | Note | 2016/17 £'000's CTAX | 2016/17 £'000's NNDR |
|---|---|---|---|---|---|
| | | **Income** | | | |
| (72,859) | 0 | Tax Levied | | (76,194) | 0 |
| | (51,841) | Income from business ratepayers | | 0 | (54,155) |
| **(72,859)** | **(51,841)** | **Total Income** | | **(76,194)** | **(54,155)** |
| | | **Expenditure** | | | |
| | | **Precepts and demands and discounts** | | | |
| 0 | 42,497 | DCLG | 3 | 0 | 38,949 |
| 52,597 | 4,685 | Kent County Council | 3 | 55,616 | 4,021 |
| 7,115 | 0 | Police & Crime Commissioner for Kent | 3 | 7,464 | 0 |
| 3,409 | 521 | Kent & Medway Fire & Rescue Authority | 3 | 3,534 | 447 |
| 9,726 | 4,349 | Canterbury City Council (incl. Parishes) | 3 | 10,222 | 1,263 |
| **72,847** | **52,052** | **Total payments to preceptors** | | **76,835** | **44,679** |
| | | **Business rate** | | | |
| 0 | 232 | Costs of collection | | 0 | 233 |
| 0 | 0 | Renewable Energy Schemes | | 0 | 416 |
| 0 | 251 | Transitional protection payment due from authority | | 0 | 52 |
| | | **Bad and doubtful debts** | | | |
| (53) | (516) | Write offs | | (118) | (492) |
| 151 | 704 | Provisions | | 437 | 1,202 |
| | | **Losses on appeal** | | | |
| 0 | (686) | Changes in provision for appeals | | 0 | (415) |
| **72,945** | **52,037** | **Total Expenditure** | | **77,155** | **45,675** |
| 86 | 197 | Net (surplus)/deficit for 2016/17 | | 961 | (8,480) |
| (2,427) | 4,050 | Collection Fund balance at 1 April | | (2,341) | 4,246 |
| (2,341) | 4,246 | Collection Fund balance at 31 March | | (1,380) | (4,233) |

### Notes to the collection fund accounts

#### 1. General Note

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

#### 2. Collection Fund Surplus/Deficit

Canterbury and the major preceptors share any council tax surpluses or deficits attributable to the collection fund in proportion to the precept requirement. The 2014/15 NNDR deficit of £4,049,000 and the 2014/15 Council Tax surplus of £1,771,000 were recovered and distributed from preceptors in 2016/17.

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

### 3. Apportionment of Collection Fund element over preceptors

**Council Tax**

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

The collection fund has to be apportioned at the year-end across all of the major preceptors. This comprises two elements; the share of the estimated surplus position of £1,767,000 which was notified in January 2016 pro-rata to the 2016/17 precepts, and the actual surplus balance of £1,380,000 pro-rata to the 2016/17 precepts.

**Council Tax precepts and demands breakdown**

| | Balance B/f £'000 | 2016/17 precepts £'000 | 2015/16 Est surplus £'000 | 2014/15 actual surplus £'000 | Total Precept paid 2016/17 £'000 | Collection fund balance at 31 March £'000 |
|---|---|---|---|---|---|---|
| Kent County Council | (1,683) | 54,351 | 682 | 582 | **55,616** | (1,008) |
| Police & Crime Commissioner for Kent | (227) | 7,295 | 90 | 78 | **7,464** | (135) |
| Canterbury City Council (incl. Parishes) | (322) | 9,972 | 131 | 119 | **10,222** | (173) |
| Kent & Medway Fire & Rescue Authority | (109) | 3,452 | 44 | 38 | **3,534** | (64) |
| | **(2,341)** | **75,070** | **948** | **817** | **76,835** | **(1,380)** |

**NNDR**

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

For 2016/17 Canterbury City Council continued with a pooled arrangement with Kent County Council in order to minimise the levy payment due to central government and thereby maximise the local retention of locally generated business rates.

**NNDR precepts and demands**

| | Balance B/f £'000 | 2016/17 precepts £'000 | 2015/16 deficit £'000 | Total precept paid 2016/17 £'000 | Collection fund balance at 31 March £'000 |
|---|---|---|---|---|---|
| Kent County Council | 338 | 4,478 | (457) | **4,021** | (381) |
| Kent Fire and Rescue Authority | 38 | 498 | (51) | **447** | (42) |
| Canterbury City Council | 1,990 | 3,294 | (2,031) | **1,263** | (1,693) |
| Payments to Pool/DCLG | 1,880 | 41,487 | (2,539) | **38,949** | (2,117) |
| | **4,246** | **49,757** | **(5,078)** | **44,679** | **(4,233)** |

The £1,650,000 expenditure on the Income and Expenditure Account relates to Canterbury's payments for NNDR deficit balances for previous years. This deficit is funded from government grants that have been received in previous years and held in reserve until we are required to account for it. The statutory requirement to account for different components of the collection fund in different financial years necessitates the use of reserves to help smooth the effect on general fund.

## 4. Council Tax Base

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

| 2015/16 Band D equivalent dwellings | Band | Estimated Number of Taxable Properties after effect of discounts | Ratio (ninths) | 2016/17 Band D equivalent dwellings |
|---|---|---|---|---|
| 2,153 | A | 3,337 | 6/9 | 2,200 |
| 6,494 | B | 8,668 | 7/9 | 6,668 |
| 13,208 | C | 15,105 | 8/9 | 13,276 |
| 10,430 | D | 10,610 | 9/9 | 10,493 |
| 7,382 | E | 6,142 | 11/9 | 7,425 |
| 5,071 | F | 3,532 | 13/9 | 5,045 |
| 3,218 | G | 1,949 | 15/9 | 3,212 |
| 140 | H | 68 | 18/9 | 135 |
| 48,097 | | 49,410 | | 48,453 |
| 98.9% | | Collection Rate | | 98.9% |
| 47,210 | | Council Tax Base | | 47,947 |

## 5. Income from Business Rates

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area which are based on local rateable values multiplied by a uniform rate in the pound. The total amount, less certain reliefs and other deductions, are allocated between Canterbury, central government and major preceptors.

| 2015/16 £'000 | | 2016/17 £'000 |
|---|---|---|
| 133,085 | Non domestic rateable value | 131,815 |
| 0.493 | small business non domestic rating multiplier | 0.497 |
| 65,611 | NNDR levied | 65,512 |
| (14,002) | Less: allowances and other adjustments | (11,589) |
| 51,609 | Net contribution due to pool | 53,923 |
| 232 | Cost of collection | 232 |
| 51,841 | Income from business ratepayers | 54,155 |

There is a general revaluation of all properties effective from 1 April 2017.

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Authority's responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director of Resources

- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets

- approve the Statement of Accounts.

### The Director of Resources' responsibilities:

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

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

- selected suitable accounting policies and then applied them consistently

- made judgements and estimates that were reasonable and prudent

- complied with the local authority Code.

The Director of Resources has also:

- kept proper accounting records which were up to date

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Statement of Accounts presents a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2017.

Signed

P. Marshall

Patricia Marshall
Date 22 September 2017
Director of Resources (Chief Financial Officer)

Cllr Georgina Glover
Date 22 September 2017
Chair Audit Committee