Folkestone
Hythe & Romney Marsh
Shepway District Council
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Agenda

Meeting: **Audit and Governance Committee**
Date: **13 September 2017**
Time: **7.00 pm**
Place: **Boulogne Room - Civic Centre, Folkestone**

To: **All members of the Audit and Governance Committee**

The committee will consider the matters, listed below, at the date, time and place shown above. The meeting will be open to the press and public.

Members of the committee, who wish to have information on any matter arising on the agenda, which is not fully covered in these papers, are requested to give notice, prior to the meeting, to the Chairman or appropriate officer.

1. **Apologies for Absence**

2. **Declarations of Interest**

   Members of the committee should declare any interests which fall under the following categories*:

   a) disclosable pecuniary interests (DPI);
   b) other significant interests (OSI);
   c) voluntary announcements of other interests.

3. **Minutes**

   To consider and approve, as a correct record, the minutes of the meeting held on 26 July 2017.

4. **Report on Dispensations (page 9)**

   Report AuG/17/07 considers the applications for dispensations under the code of conduct for councillors to speak and vote received by the councillors who are also directors of Oportunitas. The recommendation is that the dispensations are granted.

Queries about the agenda? Need a different format?

Contact Kate Clark – Tel: 01303 853267
Email: committee@shepway.gov.uk or download from our website
www.shepway.gov.uk

Date of Publication: Monday, 4 September 2017

5. **EKAP Audit Update Report (page 17)**

Report AuG/17/08 includes the summary of the work of the East Kent Audit Partnership (EKAP) since the last Audit and Governance Committee meeting together with details of the performance of the EKAP to the 30th June 2017.

6. **Grant Thornton - External Audit Update (page 33)**

Report AuG/17/10 from Grant Thornton gives a progress update on recent audit work undertaken and highlights topical issues.

7. **Statement of Accounts 2016/17 (page 55)**

In accordance with the Accounts and Audit Regulations 2015 the council must consider and approve its Statement of Accounts no later than 30 September 2016. The Committee received a report on the Statement of Accounts for 2016/17 at the meeting on 26 July 2017. The purpose of this report AuG/17/09 is to provide an update on the final outcome of the audit.

*Explanations as to different levels of interest

(a) A member with a disclosable pecuniary interest (DPI) must declare the nature as well as the existence of any such interest and the agenda item(s) to which it relates must be stated. A member who declares a DPI in relation to any item must leave the meeting for that item (unless a relevant dispensation has been granted).

(b) A member with an other significant interest (OSI) under the local code of conduct relating to items on this agenda must declare the nature as well as the existence of any such interest and the agenda item(s) to which it relates must be stated. A member who declares an OSI in relation to any item will need to remove him/herself to the public gallery before the debate and not vote on that item (unless a relevant dispensation has been granted). However, prior to leaving, the member may address the meeting in the same way that a member of the public may do so.

(c) Members may make voluntary announcements of other interests which are not required to be disclosed under (a) and (b). These are announcements made for transparency reasons alone, such as:

• membership of outside bodies that have made representations on agenda items, or

• where a member knows a person involved, but does not have a close association with that person, or

• where an item would affect the well-being of a member, relative, close associate, employer, etc. but not his/her financial position.

Voluntary announcements do not prevent the member from participating or voting on the relevant item

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Minutes

Audit and Governance Committee

Held at:	Boulogne Room - Civic Centre, Folkestone
Date	Wednesday, 26 July 2017
Present	Councillors Michael Lyons, David Owen (Chairman), Paul Peacock (Vice-Chair) and Damon Robinson
Apologies for Absence	Councillor Mrs Susan Wallace
Officers Present:	David Christie (Chief Accountant), Kate Clark (Trainee Committee Services Officer), Amandeep Khroud* (Head of Democratic Services and Law), Tim Madden (Corporate Director - Organisational Change), Pat Main (Head of Finance), Mrs Christine Parker (Head of Audit Partnership) and Mr Chris Parker (Deputy Head of Audit) (*Left the meeting after Minute Item 3)
Others Present:	Elizabeth Jackson (Engagement Lead, Grant Thornton) and Andy Conlon (Manager, Grant Thornton)

1. **Declarations of Interest**

There were no declarations of interest.

2. **Minutes**

The minutes of the meeting held on 8 March 2017 were submitted, approved and signed by the Chairman.

3. **Annual Governance Statement 2016/17**

Under the Accounts and Audit Regulation 2011, local authorities are required to produce an Annual Governance Statement. Report AuG/17/01 describes the process followed and seeks approval for the Annual Governance Statement for the year 2016/17.

Amandeep Khroud, Head of Democratic Services and Law, presented the report.

Members noted the following:

With regard to certification it was advised that the two certified claims related to Housing Benefit and Right to buy sales and receipts.

An explanation was given with regard to corporate complaints stages 1 and 2 as well as the ways in which complaints are received.

It was confirmed that Code of Conduct training was carried out on Councillors appointment to the District, however, any ongoing queries or clarification needs can be directed to the Monitoring Officer.

Proposed by Councillor Michael Lyons
Seconded by Councillor Paul Peacock and

Resolved:
1. To receive and note report AuG/17/01
2. To approve the draft Annual Governance Statement for 2016/17.
3. To approve the council's corporate action plan outlined in Appendix 2 for 2017/18.

(Voting: For 4, Against 0, Abstentions 0)

4. **EKAP Update Report 2017/18**

Report AuG/17/02 includes the summary of the work of the East Kent Audit Partnership (EKAP) since the last Audit and Governance Committee meeting.

Chris Parker, Deputy Head of Audit, presented the report.

With regard to Environmental Health Food and Safety members noted the audit had reported on a backlog of food safety inspections. Mr Parker confirmed this review has now been followed up and Environmental Health has since alleviated this backlog with overtime and plans for additional trained officers going forward.

Complaints monitoring. It was noted that one of the suggestions for improvement had identified results from any Local Government Ombudsman investigations were not automatically copied to the relevant Head of Service or Directors.

Proposed by Councillor Michael Lyons
Seconded by Councillor Damon Robinson and

Resolved:
1. To receive and note Report AuG/17/02
2. To note the results of the work carried out by the East Kent Audit Partnership.

(Voting: For 4; Against 0: Abstentions 0)

5. **EKAP Annual Report 2016/17**

Report AuG/17/03 provides the summary of the impact of the work of the East Kent Audit Partnership for the year to 31 March 2017.

Mrs Christine Parker, Head of Audit Partnership, presented the report.

The Chairman congratulated all involved in the preparation of this report.

Proposed by Councillor David Owen
Seconded by Councillor Paul Peacock and

Resolved:

1. **To receive and note Report AuG/17/03**

(Voting: For 4: Against 0; Abstentions 0)

6. **Grant Thornton Letter to the Audit and Governance Committee Chair**

Report AuG/17/04 contains Grant Thornton's letter to the Audit and Governance Committee which is part of their auditor risk assessment work. They are seeking confirmation from the Committee about how if gains assurance from management. Their letter, attached at Appendix 1 of the agenda, includes a series of questions on fraud, laws and regulations. The proposed response is attached at Appendices 2 and 3 of the agenda.

Mrs Pat Main, Head of Finance, presented the report.

Members noted the following:

Staff induction is carried out for all new staff members and the policy is updated regularly to reflect any changes.

Any complaints with regard to whistleblowing can be reported to the relevant Line Manager, any Head of Service or the Chief Executive.

Proposed by Councillor Michael Lyons
Seconded by Councillor Paul Peacock and

Resolved:
1. To receive and note Report AuG/17/04.
2. To consider and approve the proposed response to Grant Thornton's letter to the Audit & Governance Committee.

(Voting: For 4; Against 0; Abstentions 0)

7. **Grant Thornton Draft Audit Findings for Shepway District Council 2016/17**

Report AuG/17/06 – Grant Thornton are required to issue a report to those charged with governance, summarising the findings and conclusions of their audit work. They are also required by professional auditing standards to report certain matters before giving an opinion on the financial statements for the year ended 31 March 2017.

The Chairman announced a revised report had been produced and circulated prior to the meeting and it was suggested by Elizabeth Jackson, Engagement Lead, Grant Thornton that there would not be any other amendments.

On the final page of the report it was shown that an audit certificate cannot be produced at this time for the year ended 31 March 2017, due to objections raised in relation to the 2015/16 accounts which had not as yet been concluded. However, Grant Thornton reiterated that there would be no impact on issuing an unqualified opinion for the 2016/17 accounts.

Mr Tim Madden, Corporate Director, Organisational Change, advised there had been substantial costs and staff time involved in dealing with these objections.

Grant Thornton's fees are still to be confirmed although it was felt these would not vary significantly from those quoted.

Proposed by Councillor Michael Lyons
Seconded by Councillor Damon Robinson and

Resolved:
1. To receive and note Report AuG/17/06.
2. To consider Grant Thornton's The Audit Findings for Shepway District Council Year Ended 31 March 2017 report.
3. To approve the Letter of Representation and authorise the Chairman to sign the Letter on behalf of the Council.

(Voting: For 4; Against 0; Abstentions 0)

8. **Statement of Accounts 2016/17**

Report AuG/17/05 – In accordance with the Accounts and Audit Regulations 2015 the council must consider and approve its Statement of Accounts no later than 30 September 2017. The Accounts have been subjected to audit, the details of which are set out in Grant Thornton's Audit Finding report.

The Chairman announced a revised Statement of Accounts had been produced which had been circulated prior to the meeting. In this revision changes had been made however, this did not affect the overall figures. Grant Thornton had also added their report and opinion.

Proposed by Councillor David Owen

Seconded by Councillor Michael Lyons and

Resolved:
1. To receive and note Report AuG/17/05.
2. To approve the Statement of Accounts 2016/17.

(Voting: For 4; Against 0; Abstentions 0)

Prior to the closure of the meeting, the Chairman of Audit and Governance Committee, Councillor David Owen, signed the Letter of Representation on behalf of the Council.

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This report will be made public on 5 September 2017.

Report Number **AuG/17/07**

To: **Audit and Governance Committee**
Date: **13 September 2017**
Status: **Non executive**
Head of service: **Amandeep Khroud – Head of Democratic Services and Law**

SUBJECT: APPLICATIONS FOR DISPENSATIONS UNDER THE CODE OF CONDUCT FOR DIRECTORS OF OPORTUNITAS

SUMMARY: This report considers the applications for dispensations under the code of conduct for councillors to speak and vote received by the councillors who are also directors of Oportunitas. The recommendation is that the dispensations are granted.

REASONS FOR RECOMMENDATIONS:
The committee is asked to agree the recommendations to enable the dispensations to be granted.

RECOMMENDATIONS:
1. **To receive report no AuG/17/07.**
2. **To grant dispensations under the code of conduct and under section 33 Localism Act 2011 to Councillors Mrs Claire Jeffrey, Roger James Wilkins and Mrs Mary Lawes, to allow them to speak and vote at meetings where company affairs are discussed;**
3. **That the dispensations be time limited to 2 May 2019;**
4. **That in the event of a change of directors the monitoring officer be authorised to consider applications for and grant dispensations to any councillor who becomes a director of Oportunitas on the same terms provided that the councillor concerned is not a member of the cabinet and the dispensation is time limited in the same way.**

1. BACKROUND

1.1 As councillors will be aware the council has established a housing and regeneration company – Oportunitas – which is wholly owned by the local authority.

1.2 The company's board of directors is composed of four councillors – Councillors Claire Jeffrey, Philip Martin, Roger James Wilkins and Mary Lawes. The councillors (other than Cllr Martin) have requested dispensations under the code of conduct for councillors and S33 Localism Act 2011 to enable them to speak and vote on matters relating to Oportunitas, The position of these councillors, in relation to the code of conduct for councillors and the Act now needs to be considered. It should be noted that none of the councillors are members of the cabinet.

1.3 Requests in the same form, and indeed from, in two cases, the same councillors (namely Councillors Wilkins and Miss Govett) were considered by the Audit and Standards Committee on 24 June 2015. The committee resolved (minute 11):-

> *"Resolved:*
> *1. To receive report AuS/15/05.*
> *2. To grant dispensations under the code of conduct and under section 33 Localism Act 2011 to Councillors Richard Pascoe, Ann Elizabeth Berry, Roger James Wilkins and Susanna Elena Govett, to allow them to speak and vote at meetings where company affairs are discussed;*
> *3. That the dispensations will be time limited to 1 July 2017;*
> *4. That in the event of a change of directors, the Monitoring Officer be authorised to consider applications for, and grant dispensations to any councillor who becomes a director of Oportunitas, the same terms for provided that the councillor concerned is not a member of the cabinet and the dispensation is time limited in the same way".*

2. CODE OF CONDUCT

2.1 The Council's Code of Conduct is set out in part 9 of the Constitution. It refers to the two types of interests which a member might hold, namely a discloseable pecuniary interest (which derives from the Localism Act 2011) and another significant interest.

2.2 One of the categories of discloseable pecuniary interest is a councilor's "employment, office, trade, profession or vocation" which is defined as "Any employment, office, trade, profession or vocation carried on for profit or gain." Some directors receive an allowance for their work on the board so those that do will have a discloseable pecuniary interest.

2.3 In addition an Other Significant Interest could also arise in respect of directors who are also councillors. Other significant interests include the interest of an "associated person". One of the definitions of "associated person" is a company over which a member has control/management and to which the councillor has been appointed by the council. The relevant definition is:

"Any body of which you are in a position of general control or management and to which you have been appointed by the authority."

2.4 At a meeting where a discloseable pecuniary interest or an "Other Significant Interest" arises, a member would have to declare it. He / she would be prevented from voting on the matter. A discloseable pecuniary interest prevents a councillor from making any representation at the meeting on the matter, in the case of an other significant interest the member can only make such representations as a member of the public can make.

2.5 At any meeting where the business of the company is discussed and any decisions about the company are taken, under the Act and the Code of Conduct, those members who are directors and who sit on the committee, would be barred from discussing fully and/or voting on, the matters. Most decisions about the company will be made at cabinet; therefore the conflict of interest will not arise at these meetings. However, there will be other meetings, such as Council, Overview and Scrutiny etc, where the interest may arise.

3 DISPENSATIONS

3.1 The Code of Conduct in respect of other significant interests and section 33 Localism Act 2011 in respect of discloseable pecuniary interests allows dispensations to be granted to members who have an interest to speak and/or vote at meetings at which an interest arises. These powers are delegated to this committee and in certain circumstances to the monitoring officer.

3.2 The Code sets out the circumstances which must be taken into account in considering granting a dispensation. In summary, they are:

That, without the dispensation:

- There would not be political balance in the committee
- That there would be too few members of the committee remaining to operate
- Members of the executive (Cabinet) would be preventing from participating in the business of the executive.
- The interests of people living in the district would not be served
- It is otherwise appropriate to grant the dispensation.

3.3 The committee at its meeting on 26 September 2012 considered report AuS/12/14 setting out possible criteria for deciding whether dispensations should be granted. The agreed criteria are:-

a) The nature of the member's interest and allowing them to participate would not damage public confidence in the conduct of the Authority's business.

If public confidence would be damaged then such an application would be likely to be refused. It is unlikely that it would be appropriate therefore, for example, to grant a dispensation to a member who has an interest arising as a result of an effect on their personal financial position or on that of a relative.

b) The interest is common to the member and a significant proportion of the general public.

c) The participation of the member in the business that the interest relates to is justified by the member's particular role or expertise.

d) The business that the interest relates is about a voluntary organisation or a public body which is to be considered by an overview and scrutiny committee and the member's interest is not a financial one.

3.4 The committee resolved, minute 17

"To adopt the criteria for granting dispensations set out in paragraph 3.4 of the report where the application for dispensation is made on any of the following grounds:*
(i) Without the dispensation, the representation of different political groups on the body transacting the business would be so upset as to alter the outcome of any vote on the matter;
(ii) That the authority considers that the dispensation is in the interests of persons living in its area; or
(iii) Where the Committee considers that it is otherwise appropriate to grant a dispensation."

*These are the criteria shown above.

3.54 The committee is asked to consider the applications. However the monitoring officer is of the opinion that the public confidence is unlikely to be damaged by the participation of the councillor / directors; the company is wholly owned by the council, apart from an allowance (if paid) the directors do not stand to gain financially) and most of the decisions on the company will be made in cabinet which the directors do not sit on. It is the recommendation therefore all of the directors are given a general dispensation under the Code of Conduct and the Act when discussing company matters at any committee of the Council. It should be noted, in passing, that it has not been necessary to grant dispensations pursuant to the resolution of 24 June 2015.

3.6 It is also recommended that the dispensations be time limited to 2 May 2019 which is, in any event the date of the next district election. In the event of a change of directors it is also recommended that the monitoring officer be authorised to consider applications for dispensations from any new director and provided that the new directors are not members of the cabinet to grant them if she sees fit. It is considered that the committee should have the opportunity to consider the position of directors who are members of the cabinet if this situation arises.

4 RISKS/CONTROLS

The risks are that those members who are appointed directors will not be able to fully participate in Council meetings at which company matters are discussed. As the directors are not on cabinet and hence will in all likelihood not be making decisions as local authority members about the company their inability to participate would not be in the best interests of both the Council and the Company. This report therefore seeks to grant a time limited blanket dispensation to those members to allow them to speak and vote at such meetings.

5 LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

5.1 Legal officer's comments (AK)

The legal implications are included within this report.

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5.2 Finance officer's comments (RH)

There are no financial implications within this report/recommendation.

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5.3 Diversities and equalities implications (AK)

There are no specific diversity and equality implications.

6. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting:

Amandeep Khroud - Head of Democratic Services and Law
Tel: 01303 853253
Email: Amandeep.khroud@shepway.gov.uk

The following background documents have been relied upon in the preparation of this report:

Applications for dispensation from Councillors Claire Jeffrey, Roger James Wilkins and Mary Lawes

Appendices:

Appendix 1: Applications for dispensation from Councillors Claire Jeffrey, Roger James Wilkins and Mary Lawes

Appendix 1 – Applications of Dispensations from Councillors:

Councillor Claire Jeffrey:

From: [redacted]
To: Edwards, Gavin
Cc:
Subject: Re: Dispensations For Directors

Dear Gavin

Thank you for your email, I would like to request dispensation please.

Many thanks

Claire

Claire Jeffrey
Shepway District and Folkestone Town Councillor
East Folkestone Ward

Councillor Mary Lawes:

From: [redacted]
To: Edwards, Gavin
Cc:
Subject: RE: FW: Oportunitas: Dispensations For Directors - Reminder

Dear Gavin,

Thank you for your confirmation. I should have read the report properly.

I would like to make an application to have Dispensation for matters pertaining to Oportunitas.

Kind Regards

Cllr Mary Lawes UKIP
07505882169
Sent from my Sony Xperia™ smartphone

Councillor Roger Wilkins

From: [redacted]
To: Edwards, Gavin
Cc:
Subject: Re: Oportunitas: Dispensations For Directors - Reminder

Hi Gavin,

I can confirm I would like to make an application for disclosure.

Kind regards,

Roger j Wilkins

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This Report will be made public on 5 September 2017

Report Number **AuG/17/08**

To: **Audit and Governance Committee**
Date: **13 September 2017**
Status: **Non-Executive Decision**
Corporate Director: **Tim Madden - Organisational Change (S151)**

SUBJECT: INTERNAL AUDIT PROGRESS REPORT FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP

SUMMARY: This report includes the summary of the work of the East Kent Audit Partnership (EKAP) since the last Audit and Governance Committee meeting together with details of the performance of the EKAP to the 30th June 2017.

REASONS FOR RECOMMENDATION:
The Committee is asked to agree the recommendations set out below because:
In order to comply with best practice, the Audit and Governance Committee should independently contribute to the overall process for ensuring that an effective internal control environment is maintained.

RECOMMENDATIONS:
1. **To receive and note Report AuG/17/08**
2. **To note the results of the work carried out by the East Kent Audit Partnership.**

1. INTRODUCTION

1.1 This report includes the summary of the work completed by the East Kent Audit Partnership (EKAP) since the last Audit and Governance Committee progress report, together with details of the performance of the EKAP to the 30th June 2017.

2. AUDIT REPORTING

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

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

2.3. An assurance statement is given to each area reviewed. The assurance statements are linked to the potential level of risk, as currently portrayed in the Council's risk assessment process. The assurance rating given may be substantial, reasonable, limited or no assurance.

2.4 Those services with either limited or no assurance are monitored, and brought back to Committee until a subsequent review shows sufficient improvement has been made to raise the level of assurance to either reasonable or substantial. There is currently one review with such a level of assurance as shown as Appendix 2 to the EKAP report.

2.5 The purpose of the Council's Audit and Governance Committee is to provide independent assurance of the adequacy of the risk management arrangements, the control environment and associated anti fraud and anti corruption arrangements and to seek assurance that action is being taken to mitigate those risks identified.

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

3. SUMMARY OF WORK

3.1. There have been two audit reports completed during the period. These have been allocated assurance levels as follows: one was classified as providing reasonable assurance and one was not applicable for an assurance. Summaries of the report findings are detailed within Annex 1 to this report.

3.2 In addition, five follow-up reviews have been completed during the period. The follow up reviews are detailed within section 3 of the update report.

3.3 For the period to 30th June 2017 72.82 chargeable days were delivered against the planned target of 332.11 days, (including 17.11 days carried over from 2016/17) which equates to achievement of 22% of the planned number of days.

3.4 Other performance figures for the East Kent Audit Partnership for the period 2017/18 show good performance against target.

4. RISK MANAGEMENT ISSUES

4.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Non completion of the audit plan	Medium	Low	Review of the audit plan on a regular basis
Non implementation of agreed audit recommendations	Medium	Low	Review of recommendations by Audit and Governance Committee and Audit escalation policy.
Non completion of the key financial system reviews	Medium	Medium	Review of the audit plan on a regular basis. A change in the external audit requirements reduces the impact of non-completion on the Authority.

5. LEGAL, FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

5.1 **Legal Officer's comments** (DK)

No legal officer comments are required for this report.

5.2 **Finance Officer's Comments** (TM)

Responsibility for the arrangements of the proper administration of the council's financial affairs lies with the Chief Finance Officer (S151). The internal audit service helps provide assurance as to the adequacy of the arrangements in place. It is important that the recommendations accepted by Heads of Service are implemented and that audit follow-up to report on progress.

5.3 **Head of the East Kent Audit Partnership comments** (CP)

This report has been produced by the Head of the East Kent Audit Partnership and the findings / comments detailed in the report are the service's own, except where shown as being management responses.

5.4 **Diversities and Equalities Implications** (CP)

This report does not directly have any specific diversity and equality implications however it does include reviews of services which may have implications. However none of the recommendations made have any specific relevance.

6. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

6.1 Councillors with any questions arising out of this report should contact either of the following officers prior to the meeting.

Christine Parker, Head of the Audit Partnership
Telephone: 01304 872160 Email: Christine.parker@dover.gov.uk

Tim Madden, Corporate Director – Organisational Change (S151)
Telephone: 01303 853371 Email: Tim.madden@shepway.gov.uk

6.2 The following background documents have been relied upon in the preparation of this report:

Internal Audit working papers - Held by the East Kent Audit Partnership.

Attachments
Annex 1 – Update report from the Head of the East Kent Audit Partnership.

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AUDIT PARTNERSHIP

Annex 1

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

1. INTRODUCTION AND BACKGROUND

1.1 This report includes the summary of the work completed by the East Kent Audit Partnership since the last Audit and Governance Committee meeting, together with details of the performance of the EKAP to the 30th June 2017.

2. SUMMARY OF REPORTS

Service / Topic		Assurance level	No of recs	
2.1	Performance Management	Reasonable	C H M L	0 1 2 1
2.2	Car Park Machine Theft	Not applicable	C H M L	0 5 2 0

2.1 Performance Management - Reasonable Assurance

2.1.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council adopts best practices in the identification, evaluation and monitoring of its performance management data.

2.1.2 Summary of Findings

Effective performance management is critical to the success of the Council. The Council is faced with a complex range of challenges, some externally driven (e.g. from central government) and some locally driven (e.g. corporate priorities and actions). These initiatives all rely on effective performance management and measurement for their success. Performance management provides the framework to help link and underpin both national initiatives and the achievement of local priorities.

There are 197 active performance indicators being managed through the Covalent system, 71 of which are Key Performance Indicators which are monitored and reported to Corporate Management Team (CMT), the Cabinet and to the Overview and Scrutiny Committee on a regular basis throughout the year.

The primary findings giving rise to the Reasonable Assurance opinion in this area are as follows:

- The draft new Performance Management Framework will help provide a useful and solid foundation for performance related monitoring purposes;
- Performance information is well communicated and the governance arrangements are working well;
- Corporate Objectives and Service Objectives are well documented and well communicated through service plans;
- CMT is able to demonstrate its commitment to performance management through its minutes of meetings.

Scope for improvement was however identified in the following areas:

- The appraisals policy and subsequent templates on the intranet need to be reviewed to ensure they refer to the latest set of Corporate Objectives;
- HR should review the way it monitors the completion of appraisals across the Council; and
- Targets in strategies should flow into the service plan and associated targets.

2.2 Car Park Machine Theft – Not applicable for assurance level

2.2.1 Audit Scope

The audit will review the one incident of unauthorised cash collection from a parking machine and will undertake a full investigation to establish the facts surrounding the incident.

2.2.2 Summary of Findings

On 11th or 12th April 2017 a parking machine was cut out and stolen from the High Knocke car park in Dymchurch. This resulted in a replacement new machine being ordered, installed and commissioned at this site. On 31st May 2017 this newly commissioned machine was emptied by unknown person/s and £642.20 was stolen.

The outcome of the investigation is that this theft occurred due to circumstances creating an opportunity through not controlling sets of keys, and not updating the Council's contractor for collecting car park machine cash that the machine was up and running, and ensuring that they had the keys to empty the cash. Unknown persons seized the opportunity to access the machine and empty the cash as a one off theft, believing that it could not be traced back to them.

Lessons can be learnt from the series of events that lead up to the theft and recommendations have been made to ensure that security controls are improved such that the incident can not ever be repeated in the future.

3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS

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

Service / Topic	Original Assurance level	Revised Assurance level	Original recs	Outstanding recs
Treasury Management	Substantial	Substantial	C 0 H 0 M 0 L 1	C 0 H 0 M 0 L 0
Complaints Monitoring	Substantial	Substantial	C 0 H 0 M 1 L 1	C 0 H 0 M 0 L 0
Environmental Health – Food Safety & H&S	Reasonable	Substantial	C 0 H 1 M 1 L 0	C 0 H 0 M 0 L 0
Miscellaneous Income	Reasonable	Reasonable	C 0 H 0 M 1 L 4	C 0 H 0 M 0 L 1
Flexi, Annual & Sick leave	Reasonable	Reasonable	C 0 H 0 M 2 L 1	C 0 H 0 M 2 L 1

3.2 There are no individual high priority recommendations outstanding after follow-up requiring escalation to the Committee at this time as detailed in Appendix 1.

WORK IN PROGRESS

4.1 During the period under review, work has also been undertaken on the following topics, which will be reported to this Committee at future meetings: ICT Policies; Housing Right to Buy, Hythe Swimming Pool and Planning Income.

5.0 CHANGES TO THE AGREED AUDIT PLAN

5.1 The 2017/18 audit plan was agreed by Members at the meeting of the Audit & Governance Committee on 8th March 2017.

5.2 The Head of the Audit Partnership meets on a regular basis with the Section 151 Officer or their deputy to discuss any amendments to the plan. Members of the

Committee will be advised of any significant changes through these regular update reports. Minor amendments are made to the plan during the course of the year as some high profile projects or high-risk areas may be requested to be prioritised at the expense of putting back or deferring to a future year some lower risk planned reviews. The detailed position regarding when resources have been applied and or changed are shown as Appendix 3.

6.0 FRAUD AND CORRUPTION

There has been one recent case of a theft from a car park machine. The details are contained within section 2.2 above.

7.0 INTERNAL AUDIT PERFORMANCE

7.1 For the period ended 30th June 2017, 72.82 chargeable days were delivered against the planned target of 332.11 days, (including 17.11 days that were carried over from the previous year) which equates to achievement of 22% of the original planned number of days.

7.2 The financial performance of the EKAP for 2017/18 is on target for Shepway District Council.

7.3 As part of its commitment to continuous improvement and following discussions with the s.151 Officer Client Group, the EKAP has improved on the range of performance indicators it records and measures. The performance against each of these indicators for quarter 1 of 2016/17 is attached as Appendix 4. There are no concerns regarding the resources engaged or outputs.

7.4 The EKAP introduced an electronic client satisfaction questionnaire which is used across the partnership. The satisfaction questionnaires are sent out at the conclusion of each audit to receive feedback on the quality of the service. Current feedback arising from the customer satisfaction surveys is featured in the balanced scorecard which is attached as Appendix 4.

Attachments

Appendix 1	Summary of high priority recommendations outstanding or in progress after follow up
Appendix 2	Summary of services with limited / no assurances.
Appendix 3	Progress to 30th June 2017 against the agreed 2017/18 Audit plan.
Appendix 4	EKAP Balanced scorecard of performance indicators to 30th June 2017.
Appendix 5	Assurance Statements.

Appendix 1

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

Appendix 2

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED			
Service	**Reported to Committee**	**Level of Assurance**	**Follow-up Action Due**
Waste Recycling Income	March 2017	Reasonable / Limited	Q 2 2017/18

Appendix 3

PROGRESS AGAINST THE AGREED SHEPWAY AUDIT PLAN 2017/18

Review	Original Planned Days	Revised Planned Days	Actual - 30/06/17	Status and Assurance level
FINANCIAL SYSTEMS				
Business Rates	10	10		Quarter 2
Council Tax	10	10		Quarter 3
Housing Benefits DHPs	10	10	0.07	Quarter 2
Housing Benefits Overpayments	10	10	0.17	Quarter 3
Main Accounting	10	10		Quarter 3
HOUSING SYSTEMS				
Homelessness	10	10	0.16	Quarter 2
ICT SYSTEMS				
ICT review	9	9		Quarter 3
HUMAN RESOURCES SYSTEMS				
Employee Benefits in Kind	10	10	0.10	Quarter 3
Payroll transactions	5	5		Quarter 2
GOVERNANCE RELATED				
Contract Monitoring	15	18	18.44	Completed
Public Scrutiny of Accounts	10	7	1.47	Work in progress
SERVICE LEVEL				
Asset Management	10	0	0	Carried forward
Business Continuity	10	10		Quarter 2
Cemeteries & Crematoria	10	10		Quarter 3
Child & Adults - Safeguarding	10	10	0.09	Quarter 4
Councillor Grants	10	8	0.14	Quarter 2
Customer Services	10	0	0	Carried forward
Digital Transformation	10	10		Quarter 3
Electoral Finance	10	10		Quarter 4
Employee Health & Safety	5	5		Quarter 2
Environmental Protection	10	10		Quarter 4
Equality & Diversity	10	10		Quarter 4
Hythe Swimming Pool	10	10	7.03	Work in progress
Improvement Grants / DFGs	10	10	0.09	Quarter 2
Planning S106s / CILs	10	10		Quarter 3
Risk Management	10	10		Quarter 4
OTHER				
Committee reports & meetings	10	10	1.59	Ongoing
S151 meetings & support	11	11	1.70	Ongoing
Corporate advice / CMT	3	3	0.44	Ongoing
Audit plan prep & meetings	11	11	1.13	Ongoing

Liaison with External Audit	1	1		Ongoing
Polling Duty Elections	0	5	5.61	Completed
Follow Up Reviews	15	15	5.99	Ongoing
Days under delivered in 2016/17		17.11	17.11	Allocated Below
FINALISATION OF 2016-17- AUDITS				
Performance Management	15		3.86	Completed - Reasonable
Emergency Planning			0.41	Completed – Substantial
Payroll			0.10	Completed – Substantial
Planning Income			11.89	WIP – Draft Report
Right To Buy			0.60	WIP
ICT Review			0.37	WIP
RESPONSIVE ASSURANCE				
Car Park Theft	0	12	11.37	Completed – N/A
Total	**315**	**332.11**	**72.82**	**21.92% complete as at 30/06/2017**

EAST KENT HOUSING LIMITED:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-06-2017	Status and Assurance Level
Planned Work:				
CMT/Audit Sub Ctte/EA Liaison	4	4	1.15	Work-in-progress throughout 2017-18
Follow-up Reviews	4	4	0.78	Work-in-progress throughout 2017-18
Finance Systems & ICT Controls	15	15	0	Quarter 4
Data Protection & Information Management	12	12	0	Quarter 4
Leasehold Services	15	15	0	Quarter 4
Fire Safety	15	15	1.20	Work-in-Progress
Safeguarding Children & Vulnerable Groups	10	10	0.18	Work-in-Progress
Anti-Fraud & Corruption	10	10	0	Work-in-Progress
Risk Management	10	10	0.18	Work-in-Progress
Performance Management	5	5	0	Quarter 4
Complaints Monitoring	10	10	0.18	Work-in-Progress
Single System – Post Implementation Review	10	10	0	Quarter 4
Property Services Improvement Plan	20	20	0	Quarter 3/4
Days under delivered in 2016-17		7.84		
Unplanned Work:				
Performance Indicator Data Quality	0	0	8.52	
Total	**140**	**147.84**	**12.19**	**8.25% at 30-06-2017**

Appendix 4

EAST KENT
DOVER • SHEPWAY • THANET • CANTERBURY
AUDIT PARTNERSHIP

Balanced Scorecard

INTERNAL PROCESSES PERSPECTIVE:	**2017-18 Actual**	**Target**	**FINANCIAL PERSPECTIVE:**	**2017-18 Actual**	**Original Budget**
	Quarter 1		**Reported Annually**		
Chargeable as % of available days	**83%**	**80%**	• **Cost per Audit Day**	**£**	**£309.77**
			• **Direct Costs**	**£**	**£385,970**
Chargeable days as % of planned days					
CCC	**25%**	**25%**	• **+ Indirect Costs (Recharges from Host)**	**£**	**£10,530**
DDC	**22%**	**25%**			
SDC	**22%**	**25%**			
TDC	**26%**	**25%**	• **- 'Unplanned Income'**	**£**	**Zero**
EKS	**26%**	**25%**			
EKH	**8%**	**25%**	• **= Net EKAP cost (all Partners)**	**£**	**£396,500**
Overall	**22%**	**25%**			
Follow up/ Progress Reviews;					
• **Issued**	**22**	**-**			
• **Not yet due**	**17**	**-**			
• **Now due for Follow Up**	**19**	**-**			
Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)	**Partial**	**Full**			

CUSTOMER PERSPECTIVE:	**2017-18 Actual**	**Target**
	Quarter 1	
Number of Satisfaction Questionnaires Issued;	**16**	
Number of completed questionnaires received back;	**8** **= 50%**	
Percentage of Customers who felt that;		
• **Interviews were conducted in a professional manner**	**100%**	**100%**
• **The audit report was 'Good' or better**	**100%**	**100%**
• **That the audit was worthwhile.**	**100%**	**100%**

INNOVATION & LEARNING PERSPECTIVE:	**2017-18 Actual**	**Target**
Quarter 1		
Percentage of staff qualified to relevant technician level	**75%**	**75%**
Percentage of staff holding a relevant higher level qualification	**38%**	**38%**
Percentage of staff studying for a relevant professional qualification	**14%**	**N/A**
Number of days technical training per FTE	**1.48**	**3.5**
Percentage of staff meeting formal CPD requirements (post qualification)	**38%**	**38%**

Definition of Audit Assurance Statements & Recommendation Priorities Appendix 5

Assurance Statements:

Substantial Assurance - From the testing completed during this review a sound system of control is currently being managed and achieved. All of the necessary, key controls of the system are in place. Any errors found were minor and not indicative of system faults. These may however result in a negligible level of risk to the achievement of the system objectives.

Reasonable Assurance - From the testing completed during this review most of the necessary controls of the system in place are managed and achieved. There is evidence of non-compliance with some of the key controls resulting in a marginal level of risk to the achievement of the system objectives. Scope for improvement has been identified, strengthening existing controls or recommending new controls.

Limited Assurance - From the testing completed during this review some of the necessary controls of the system are in place, managed and achieved. There is evidence of significant errors or non-compliance with many key controls not operating as intended resulting in a risk to the achievement of the system objectives. Scope for improvement has been identified, improving existing controls or recommending new controls.

No Assurance - From the testing completed during this review a substantial number of the necessary key controls of the system have been identified as absent or weak. There is evidence of substantial errors or non-compliance with many key controls leaving the system open to fundamental error or abuse. The requirement for urgent improvement has been identified, to improve existing controls or new controls should be introduced to reduce the critical risk.

Priority of Recommendations Definitions:

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

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

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

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

This Report will be made public on 5 September 2017

Folkestone
Hythe & Romney Marsh
Shepway District Council
www.shepway.gov.uk

Report Number **AuG/17/10**

To:	**Audit and Governance Committee**
Date:	**13 September 2017**
Status:	**Non-Key Decision**
Head of Service:	**Pat Main, Head of Finance**
Cabinet Member:	**Councillor Malcolm Dearden, Finance**

SUBJECT: Grant Thornton Update Report.

SUMMARY:

Grant Thornton's report gives a progress update on recent audit work undertaken and highlights topical issues.

REASONS FOR RECOMMENDATION:

The Committee is asked to agree the recommendation below in order to formally note progress made on recently undertaken audit work.

RECOMMENDATIONS:

1. **To receive and note report AuG/17/10.**
2. **To consider Grant Thornton's update report.**

1. INTRODUCTION AND BACKGROUND

1.1 It was previously agreed that the external auditors should submit regular progress and update reports to meetings of this Committee. The latest report is attached at Appendix 1.

1.2 A representative from Grant Thornton will be attending the meeting to present the report and answer Members' questions.

2. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

2.1 **Legal Officer's Comments** (DK)
There are no legal implications arising directly out of this report.

2.2 **Finance Officer's Comments** (PM**)**
There are no financial implications arising directly out of this report.

2.3 **Diversity and Equalities Implications** (PM)
There are no diversity and equality implications arising directly out of this report.

3. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Pat Main, Head of Finance
Tel: 01303 853387
E-mail: pat.main@shepway.gov.uk

The following background documents have been relied upon in the preparation of this report:
None

Appendices:
Appendix 1: Grant Thornton Update Report

Grant Thornton

Shepway District Council
Audit and Governance Committee
Progress Report and Update
Year ended 31 March 2018

September 2017

Elizabeth Jackson
Engagement Lead
T 020 7728 3329
E Elizabeth.L.Jackson@uk.gt.com

Andy Conlan
Manager
T 07393 762 443
E Andy.N.Conlan@uk.gt.com

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

Introduction

This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit and Governance Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications and articles, including the reports mentioned in this update along with other items:

- Income generation is an increasingly essential part of providing sustainable local services (March 2017 and April 2017); http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/

  http://www.grantthornton.co.uk/en/insights/becoming-a-strong-commercial-council/
- CFO Insights – reviewing council's spending (December 2016); http://www.grantthornton.co.uk/en/insights/cfo-insights-reviewing-councils-201516-spend/
- Shaping a vibrant economy - A blueprint for the UK

  http://www.grantthornton.co.uk/en/insights/shaping-a-vibrant-economy-a-blueprint-for-the-uk/

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at September 2017

2017/18 work	Planned Date	Complete?	Comments
Fee Letter We are required to issue a 'Planned fee letter for 2017/18'	April 2017	Yes	The fee letter was sent to management in April 2017. A copy is included as an appendix to this report.
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2017-18 financial statements.	April 2018	Not yet due	
Interim accounts audit Our interim fieldwork visit plan included: • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment.	This work is planned to be completed during 2 fieldwork visits each of approximately a week to take place between November 2017 and February 2018	Not yet due	The fieldwork dates for our risk assessment and early testing visit will be agreed to fit around your officers' workloads. We are holding a workshop with the finance team in October 2017 to debrief the 2016/17 accounts audit and we will agree the approach for 2017/18 audit with officers after this.

Progress at September 2017

2017/18 work	Planned Date	Complete?	Comments
Final accounts audit Including: • audit of the 2016/17 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16	June/July 2018	Not yet due	The early close deadline of 31 July comes into force in the 2017/18 financial year
Value for Money (VfM) conclusion The scope of our work is unchanged to 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The three sub criteria for assessment to be able to give a conclusion overall are: • Informed decision making • Sustainable resource deployment • Working with partners and other third parties	July 2018	Not yet due	Risk assessment for our VfM conclusion work will take place simultaneously with the accounts audit risk assessment and we will notify the committee of the identified VfM risks with the 2017/18 audit plan in April 2017.

Technical Matters

Accounting and audit issues

Code of Practice on Local Authority Accounting in the United Kingdom 2017/18

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2017/18. The main changes to the Code include:

- amendments to section 2.2 (Business Improvement District Schemes (England, Wales and Scotland), Business Rate Supplements (England), and Community Infrastructure Levy (England and Wales)) for the Community Infrastructure Levy to clarify the treatment of revenue costs and any charges received before the commencement date
- amendment to section 3.1 (Narrative Reporting) to introduce key reporting principles for the Narrative Report
- updates to section 3.4 (Presentation of Financial Statements) to clarify the reporting requirements for accounting policies and going concern reporting
- changes to section 3.5 (Housing Revenue Account) to reflect the Housing Revenue Account (Accounting Practices) Directions 2016 disclosure requirements for English authorities
- following the amendments in the Update to the 2016/17 Code, changes to sections 4.2 (Lease and Lease Type Arrangements), 4.3 (Service Concession Arrangements: Local Authority as Grantor), 7.4 (Financial Instruments – Disclosure and Presentation Requirements)
- amendments to section 6.5 (Accounting and Reporting by Pension Funds) to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure.

Challenge questions:

- Are your finance team aware of the changes to the 2017/18 Code and assessed the potential impact?

Sector issues and developments

National Audit Office

NAO Publications

Progress in setting up combined authorities

For combined authorities to deliver real progress and not just be another 'curiosity of history' like other regional structures before them, they will need to demonstrate that they can both drive economic growth and also contribute to public sector reform.

Amyas Morse, head of the National Audit Office, 6 July 2017

https://www.nao.org.uk/report/progress-in-setting-up-combined-authorities/

Planning for 100% local retention of business rates

"The Department faces a significant challenge in implementing 100% local retention of business rates by 2019-20. It has benefited from the experience of delivering the 50% local retention scheme and is using this experience effectively. The key question is whether there is enough money in the system to let services be delivered on the right scale and for self-sufficiency to be seen to succeed."

Amyas Morse, head of the National Audit Office, 29 March 2017

https://www.nao.org.uk/report/planning-for-100-local-retention-of-business-rates/

Challenge question:

- Have you read the NAO reports?

Health and social care integration

"Integrating the health and social care sectors is a significant challenge in normal times, let alone times when both sectors are under such severe pressure. So far, benefits have fallen far short of plans, despite much effort. It will be important to learn from the over-optimism of such plans when implementing the much larger NHS sustainability and transformation plans. The Departments do not yet have the evidence to show that they can deliver their commitment to integrated services by 2020, at the same time as meeting existing pressures on the health and social care systems."

Amyas Morse, head of the National Audit Office, 8 February 2017

https://www.nao.org.uk/report/health-and-social-care-integration

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Local Government Association

Below is a selection of reports issued recently which may be of interest to audit committee members. Thee are available on the website:

http://www.local.gov.uk/publications

Partnership approaches to improving health outcomes for young people

14 August 2017

The case studies in this report showcase different approaches to supporting the health of young people. Whilst the approach and focus of the work in local areas varies, each case study provides an opportunity to reflect on what made the initiative a success and how to use this learning in other areas.

https://www.local.gov.uk/partnership-approaches-improving-health-outcomes-young-people

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National technological and digital procurement category strategy

1 July 2017

As local government moves wholesale towards digital operating models, it is essential that IT itself is not a barrier to business change, service transformation or to shared service initiatives.

The LGA's productivity offer - Helping councils to save money and generate income

29 June 2017

The LGA offers support to help your council become more efficient, save money and generate income

Grant Thornton

Income generation

Local government is under immense financial pressure to do more with less. The 2015/16 spending review is forecast to result in a £13 billion funding hole by 2020 that requires With further funding deficits still looming, income generation is increasingly an essential part of the solution to providing sustainable local services, alongside managing demand reduction and cost efficiency of service delivery. This report shares the insights into how and why local authorities are reviewing and developing their approach to income generation .

Our new research on income generation which includes our CFO Insights tool suggests that:

- ❖ councils are increasingly using income generation to diversify their funding base, and are commercialising in a variety of ways. This ranges from fees and charges (household garden waste, car parking, private use of public spaces), asset management (utilities, personnel, advertising, wifi concession license) and company spin-offs (housing, energy, local challenger banks), through to treasury investments (real estate development, solar farms, equity investment).
- ❖ the ideal scenario to commercialise is investing to earn with a financial and social return. Councils are now striving to generate income in way which achieves multiple strategic outcomes for the same spend; examining options to balance budgets while simultaneously boosting growth, supporting vulnerable communities and protecting the environment.
- ❖ stronger commercialisation offers real potential for councils to meet revenue and strategic challenges for 2020 onwards. Whilst there are examples of good practice and innovation, this opportunity is not being fully exploited across the sector due to an absence of a holistic and integrated approach to corporate strategy development (a common vision for success, understanding current performance, selecting appropriate new opportunities, the capacity and culture to deliver change).

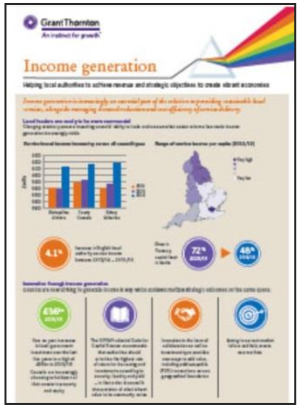
Our report helps local authorities maximise their ability to generate income by providing:

- Case study examples
- Local authority spend analysis
- Examples of innovative financial mechanism
- Critical success factors to consider

Grant Thornton publications

Challenge question:

- Have you read our income generation report?
- Is your council actively exploring options to generate income?



Our Income generation report was published on Thursday 2 March, and a further update report entitled “Becoming a strong commercial council” was published on 5 April, hard copies are available from your team and via link:

http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/

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Shaping a vibrant economy - A blueprint for the UK

The UK is at a pivotal point in its history.

The election shows the need for government and politicians, nationally and locally, to work together to reshape our economy. Government cannot, and should not, do that alone. We all have a big role to play and have a desire and ability to make a difference.

Over the past 18 months, we have brought together more than 1000 community and business leaders up and down the UK to discuss what matters to them and how they can work together to bring this to life.

We collated these ideas and added feedback from our clients and contacts to create Shaping a vibrant economy - A blueprint for the UK, a set of policy recommendations that we will share with government.

We want the government to use this opportunity to unlock and accelerate our country's potential across three key areas.
Trust - helping to restore purpose to financial markets, championing impact investing.
Growth - putting collaboration at the heart of the UK's industrial strategy to boost exports, develop skills and unlock innovation.
Place - devolving powers from Westminster and Brussels to foster vibrant local economies.

There is an opportunity for communities to take a more holistic approach to health, for example creating healthier spaces and workplaces and tackling air quality, and to use technology to provide more accessible, cheaper diagnosis and treatment for many routine issues

Finding a better way to measure the vibrancy of places
When applied to a place we can see that traditional indicators of prosperity such as GVA, do not tell the full story. To address this we have developed a Vibrant Economy Index to measure the current and future vibrancy of places. The Index uses the geography of local authority areas and identifies six broad objectives for society: prosperity, dynamism and opportunity, inclusion and equality, health wellbeing and happiness, resilience and sustainability, and community trust and belonging.
The city of Manchester, for example, is associated with dynamic economic success. While our Index confirms this, it also identifies that the Greater Manchester area overall has exceptionally poor health outcomes, generations of low education attainment and deep-rooted joblessness. These factors threaten future prosperity, as success depends on people's productive participation in the wider local economy, rather than in concentrated pockets.
Every place has its own challenges and opportunities. Understanding what these are, and the dynamic between them, will help unlock everybody's ability to thrive. Over the coming months we will continue to develop the Vibrant Economy Index through discussions with businesses, citizens and government at a national and local level.

Guy Clifton – Head of Local Government Advisory

Grant Thornton publications

Challenge question:

- Have you read our manifesto?

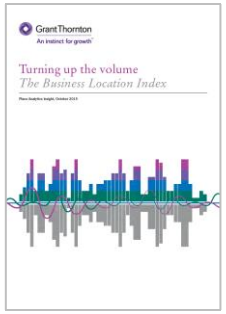
http://www.grantthornton.co.uk/en/insights/shaping-a-vibrant-economy-a-blueprint-for-the-uk/

Publications

Providing key insight and examples of best practice to local government, police, fire and rescue services.

Innovation in public financial management

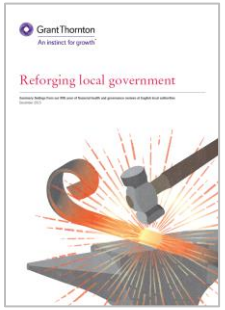
Our research on international public financial management shows it is evolving, from having a narrow focus on budgeting, towards a wider mandate as a key driver of policy and strategy across all levels of government, public services, state enterprises and public-private partnerships.



Turning up the volume

Our Business Location Index identifies the most desirable and affordable areas for investment in England, by looking at a combination of economic performance, people & skills, environment & infrastructure and cost.

Our aim is to give local authorities and LEPs the tool to better understand and market their strength and assets to increase inward investment and inform their devolution discussions.



Reforging local government

The autumn statement identified how councils will need better financial management and further efficiency to achieve the projected 29% savings. This presents a serious challenge to manage councils that have already become lean.

Our report looks at the financial challenge facing councils, the new governance agenda that will challenge traditional arrangements and expectations, and the way forward for the public sector through devolution, innovation, collaboration and cultural change.

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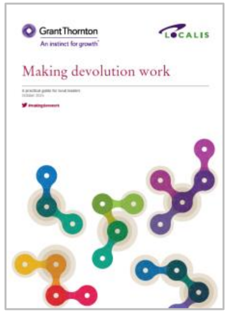
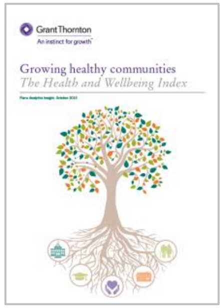


Making devolution work

This report gets under the bonnet of the devolutionary conversations taking place between Whitehall and local government across England. It offers a practical guide to local leaders by outlining the benefits of devolution, the areas of priority to central government and the key questions that must be addressed in order to produce a successful devolution bid.



Growing healthy communities

It has long been recognised that the health of a population is strongly linked to the circumstances in which people live.

Our health and wellbeing index looks at the health determinants and outcomes of an area, highlights the scale and nature of inequality across the country and reiterates the need for a local, place-based approach to tackling health outcomes. It also identifies the wider economic determinants on an area's circumstances, emphasising the need for local collaboration between public sector bodies.

Spreading their wings

Our first report in a series looking at alternative delivery models in local government looks at local authority trading companies (LATCs).

The need to improve performance against the continuing financial pressure in the public sector has led to an increase in innovative solutions to the challenges, such as alternative delivery models.

Our report provides a guide on building a successful LATC, identifying the areas that must be considered at each stage of the process, as well as offering a number of examples of best practice.

Hardcopies of these reports are available from your audit team

Appendix

2017/18 Audit Fee Letter

Alistair Stewart
Chief Executive
Shepway District Council
Castle Hill Avenue
Folkestone
Kent
CT20 2QY

Page 50

25 April 2017

Dear Sirs

Planned audit fee for 2017/18

The Local Audit and Accountability Act 2014 provides the framework for local public audit. Under these provisions the Secretary of State for Communities and Local Government delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis.

PSAA will oversee the Audit Commission's audit contracts for local government bodies until they end in 2018, following the announcement by the Department for Communities and Local Government (DCLG) that it will extend transitional arrangements until 2017/18. PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the PSAA website.

From 2018/19 PSAA has been specified by the Secretary of State as an appointing person for principal local government and police bodies, and will make auditor appointments and set fees for bodies that have opted into the national auditor appointment scheme it is developing.

Scale fee

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timescales'.

There are no changes to the overall work programme for local government audited bodies for 2017/18, following the recent CIPFA/LASAAC announcement that their planned introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities in 2017/18 will no longer proceed. PSAA have therefore set the 2017/18 scale audit fees at the same level as the scale fees applicable for 2016/17. The Council's scale fee for 2017/18 has been set by PSAA at £60,458.

The audit planning process for 2017/18, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors from April 2015. Audits of the accounts for 2017/18 will be undertaken under this Code, on the basis of the 2017/18 work-programme and scales of fees set out on the PSAA website. Further information on the NAO Code and guidance is available on the NAO website.

The scale fee covers:

- our audit of your financial statements;
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion); and
- our work on your whole of government accounts return (if applicable).

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

Value for Money conclusion

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its guidance for auditors on value for money work in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Certification of grant claims and returns

At the request of the Department for Work and Pensions, auditors appointed by PSAA will continue to certify local authority claims for housing benefit subsidy for 2017/18.

The Council's indicative fee for this certification work has yet to be set by PSAA. We will write to you to confirm the fee when this has been confirmed.

Assurance engagements for other schemes will be subject to separate arrangements and fees agreed between the grant-paying body, the Council and ourselves.

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2017	15,114.50
December 2017	15,114.50
March 2018	15,114.50
June 2018	15,114.50
Total	**60,458**
Housing Benefit Certification	
March 2018	TBC

Outline audit timetable

We will undertake our audit planning and interim audit procedures in November 2017 to March 2018. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in June to July 2018 and work on the whole of government accounts return in July 2018.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	November 2017 to March 2018	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June to July 2018	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	July 2018	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	July 2018	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	August 2018	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	August to November 2018	Grant certification report	A report summarising the findings of our housing benefit certification work

Our team

The key members of the audit team for 2017/18 are:

Role	Name	Phone number	Email
Engagement Lead	Elizabeth Jackson	07880 456 191	Elizabeth.L.Jackson@uk.gt.com
Engagement Manager	Andy Conlan	07393 762 443	Andy.N.Conlan@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact Paul Dossett, our Public Sector Assurance regional lead partner, via Paul.Dossett@uk.gt.com.

Yours sincerely

Elizabeth Jackson
Engagement Lead

cc. Tim Madden

This Report will be made public on 5 September 2017

Folkestone
Hythe & Romney Marsh
Shepway District Council
www.shepway.gov.uk

Report Number **AuG/17/09**

To: **Audit and Governance Committee**
Date: **13 September 2017**
Status: **Non-Key Decision**
Head of Service: **Pat Main, Head of Finance**
Cabinet Member: **Councillor Malcolm Dearden, Finance**

Subject: Statement of Accounts 2016/17

Summary: In accordance with the Accounts and Audit Regulations 2015 the council must consider and approve its Statement of Accounts no later than 30 September 2016. The Committee received a report on the Statement of Accounts for 2016/17 at the meeting on 26 July 2017. The purpose of this report is to provide an update on the final outcome of the audit.

Reasons for recommendations:
The Committee is asked to agree the recommendations set out below to confirm that the audit of the Statement of Accounts for 2016/17 has finished and the final version of the Statement of Accounts has been formally approved.

Recommendations:
1. **To receive and note Report AuG/17/09.**
2. **To note that the audit is now concluded and the final audited version of the Statement of Accounts for 2016/17 was signed by the Chairman of the Audit and Governance Committee and the Chief Finance Officer on 7 September 2017.**

1. INTRODUCTION AND BACKGROUND

1.1 The 2016/17 Statement of Accounts is prepared in accordance with 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).

1.2 The council must comply with the provisions of the Accounts and Audit Regulations 2015. Concerning the signing, approval and publication of the Statement of Accounts:-

i) The responsible financial officer must, no later than 30 June 2017, sign and date the statement of accounts and certify that it presents a true and fair view of the financial position of the council at the end of the financial year and of the council's income and expenditure for that year. The Director, Organisational Change, in his role as Chief Finance Officer, signed and dated the accounts on 7 June 2017.

ii) The council must, no later than 30 September 2017, consider and approve the statement of accounts by way of resolution. The accounts are submitted for consideration and approval under this Agenda.

iii) Following approval by this Committee, the person presiding at the Committee must sign and date the statement of accounts.

iv) No later than 30 September, the council must publish its statement of accounts (including the annual governance statement and narrative statement) together with any certificate or opinion entered by the auditor.

2. STATEMENT OF ACCOUNTS 2016/17 – AUDIT OUTCOME

2.1 The latest version (at 26 July) of the 2016/17 Statement of Accounts was presented to the meeting of Audit and Governance Committee on 26 July 2017. Members were given an opportunity at the meeting to raise questions with the Finance team and with Grant Thornton's representatives.

2.3 At that stage this was anticipated to be the final version of the Statement of Accounts for 2016/17 therefore Members gave their approval and the Chairman and Chief Finance Officer signed the statement of accounts at the meeting.

2.4 Based on discussions with Grant Thornton at 26 July no further significant changes were expected, however Members were advised that their audit findings were still being finalised so there was a possibility of further changes.

2.5 Grant Thornton have now concluded their audit and a number of additional changes have been agreed. Changes made since the 26 July version was approved are detailed below.

Page	Paragraph	Change
35	Note 2 Expenditure and Funding Analysis	The note has been revised to ensure that it is consistent with the budget outturn information that was presented to Cabinet in June 2017
44	Note 14 Property Plant and Equipment	The note has been revised to reflect the changes detailed in Grant Thornton's Audit Findings Report
50	Note 16 Financial Instruments	The note has been revised to reflect the correct classification of soft loans and various small errors/misclassifications.
54	Note 17 Short Term Debtors	The note has been revised to reflect the changes detailed in Grant Thornton's Audit Findings Report
54	Note 19 Assets Held for Sale	The note has been revised to correct the disclosure of Property, Plant and Equipment additions and Assets Sold
64	Note 33 Related Party Transactions	The note has been revised to reflect the final figures for transactions with external bodies at year end.
66	Note 36 Defined Benefit Pensions	The note has been revised to ensure consistency with the actuarial report.
70	Note 37 Contingent Liabilities	The note has been revised to update the East Kent Housing Limited figures for 2016/17.
76	Note 41 Interests in Companies and Other Entities	The note has been revised to update the East Kent Housing Limited loss after taxation figure for 2016/17.

2.6 It has been agreed with Grant Thornton that these changes, while not amending the core statements (Movement in Reserves Statement, Comprehensive Income & Expenditure Statement and Balance Sheet), are significant enough to require the Chairman and Chief Finance Officer to re-sign the updated version.

3. CONCLUSION

3.1 The Committee is asked to note that the updated final version of the audited Statement of Accounts 2016/17 was signed by the Chairman of the

Audit and Governance Committee and the Chief Finance Officer on 7 September 2017.

3.2 Grant Thornton's updated Audit Findings report is attached at Appendix 1.

3.3 The Letter of Representation is attached Appendix 2.

3.4 The updated final version of the audited Statement of Accounts for 2016/17 that was signed on 7 September 2017 is attached at Appendix 3.

4. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

4.1 **Legal Officer's Comments** (DK)
There are no legal issues arising from this report that have not already been considered.

4.2 **Finance Officer's Comments** (PM)
A financial summary of the main features of the Statement of Accounts is covered in the body of the report.

Diversity and Equalities Implications (PM)
4.3 There are none arising directly from this report

5. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Pat Main – Head of Finance
Telephone: 01303 853387
email: pat.main@shepway.gov.uk

The following background documents have been relied upon in the preparation of this report:

Appendices:
Appendix 1: Grant Thornton Audit Findings Report

Appendix 1: Letter of Representation

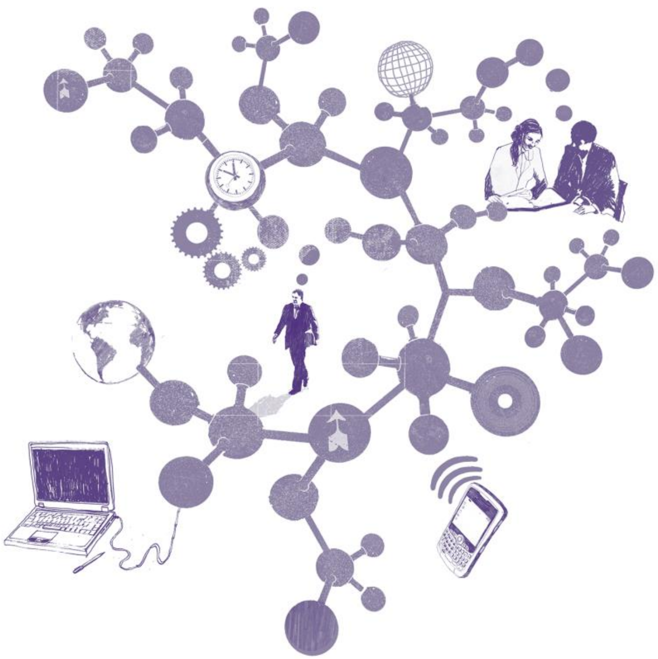
Appendix 1: Statement of Accounts 2016/17

The Audit Findings for Shepway District Council

Year ended 31 March 2017

1 September 2017

Final version: All amendments to the previous version shown in italics.



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Grant Thornton

Private and Confidential

Councillor Owen
Chair of the Audit and Governance Committee
Shepway District Council
Civic Centre, Castle Hill Avenue
Folkestone
Kent
CT20 2QY

Grant Thornton UK LLP
Finsbury Square
London EC2A 1AG

www.grant-thornton.co.uk

1 September 2017

Dear Councillor Owen

Audit Findings for Shepway District Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Shepway District Council, the Audit and Governance Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely

Elizabeth Jackson

Engagement lead

Contents

Section 1: Executive summary

Purpose of this report

This report highlights the key issues affecting the results of Shepway District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 6 March 2017.

Our audit is now complete. We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable. The Council prepared the accounts earlier than in previous years and streamlined the accounts for 2016/17. Some of the working papers, particularly around operating expenditure, revenues, debtors and creditors, were difficult to tie into the financial statements and general ledger without additional work during the onsite visit. This caused significant delays in the first two weeks of the audit onsite fieldwork, and the audit team found it particularly difficult to isolate populations of transactions which could be used for our sample testing. Communication between finance and audit could be improved to ensure all officers understand what standard of working papers is required for audit and we will hold a workshop with officers in advance of next year's audit.

Key audit and financial reporting issues

Financial statements opinion

Subject to completion of the work highlighted above, we have not identified any adjustments affecting the group and Council's reported financial position (details are recorded in section two of this report). The draft and audited financial statements for the year ended 31 March 2017 recorded a net surplus on provision of services of £10,683k. We have recommended a number of adjustments and disclosure amendments ensure disclosures are correct and in line with accounting guidelines and to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- *Although out audit work did not highlight any adjustments which affected the overall financial position, there were a significant number of changes to classifications of items and to disclosures (see pages 21-23). We also made an adjustment to the Group Balance Sheet as shown on page 20. This did not affect the Group overall financial position.*
- *Two control weakness around small value expenditure items and soft loans which were incorrectly retained in the accounts were highlighted in our work and this is detailed on page 19. We have made recommendations for control improvements in Appendix A, and we have additionally made recommendations around records supporting the calculation of HRA depreciation and applying a practical de-minimus for accruals.*
- *Improvements could be made to the supporting audit trail provided in the working papers and we have made a recommendation relating to this in our action plan in Appendix A.*

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Subject to the outstanding work highlighted above, the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

Our work to date has identified a control weakness relating to the accounting of small value expenditure amounts which we wish to highlight for your attention. Details are presented on page 19 to this report.

Value for Money

Based on our review we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

We have two outstanding objections from 2015/16 which we are currently finalising.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to the Audit and Governance Committee which is due in December 2017.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Corporate Director of Organisational Change.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Corporate Director of Organisational Change and the finance team.

Acknowledgement

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

Grant Thornton UK LLP
September 2017

Section 2: Audit findings

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we initially determined overall materiality to be £1,747k (being 2% of gross revenue expenditure reported in 2015/16). We have considered whether this level remained appropriate during the course of the audit. Due to a year on year decline in the gross expenditure on continuing operations reported in the draft accounts received at the start of the audit, we reduced our overall materiality to £1,608k (being 2% of gross revenue expenditure).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £80k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we did not identify any separate materiality levels for particular classes of transactions, account balances or disclosures.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Shepway District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Shepway District Council, mean that all forms of fraud are seen as unacceptable.	Our audit work has not identified any evidence of management override of controls.
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	We have undertaken the following work in relation to this risk: • Assessment of the journal control environment and carried out a walkthrough to confirm that controls have been implemented • Reviewed the journal entry process and selected unusual journal entries for testing back to supporting documentation • Reviewed accounting estimates, judgments and decisions made by management and reviewed any unusual significant transactions.	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Year end creditors and accruals are understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: • Identified and walked through controls • Substantive testing of a sample expenditure processed through the purchase ledger • Completed testing for unrecorded liabilities/missing creditors	We identified two errors in relation to the risk: • one error in the operating expenditure testing in relation to the accounting treatment of a prepayment. We extrapolated the error over the population tested and the total error anticipated in the CIES is below trivial so no further reporting is required. • one error in the unrecorded liabilities testing in relation to an invoice totalling £1,960 that should have been accounted for partly in 2016/17 (£660) instead of all the invoice total in 2017/18. We extrapolated the error over the population tested and the total error anticipated in the CIES is below trivial so no further reporting is required. However, we have raised an internal control point about the lower value transactions included in the 2016/17 financial statements and have recommended that the Council set a de-minimus level for future years.
Employee remuneration	Employee remuneration accruals are understated	We have undertaken the following work in relation to this risk: • Identified and walked through controls • Carried out a trend analysis of monthly payroll amounts • Completed substantive testing of employee remuneration	Our audit work has not identified any issues in respect of the risk identified.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements	We have undertaken the following work in relation to this risk: • We identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • We reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out • We undertook procedures to confirm the reasonableness of the actuarial assumptions made • We reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary • We enquired about any data which was provided to the actuary in making their valuation and we reviewed the reasonableness and accuracy of this data	Our audit work has not identified any issues in respect of the risk identified. However, we identified that the discount rate factor used by the actuary, Barnett Waddingham, is outside of the auditors expert assessment and we performed additional procedures to confirm the factor used and variance is reasonable.
Valuation of property, plant and equipment	The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.	We have undertaken the following work in relation to this risk: • Assessed the revaluation control environment and carried out a walkthrough to confirm that controls have been implemented • Reviewed the competence, expertise and objectivity of management experts used, the instructions issued to valuation experts and the scope of their work • Discussed with valuer the basis on which the valuation is carried out and challenged the key assumptions • Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding • Reviewed management's processes and assumptions for the calculation of the estimate • Tested revaluations made during the year to ensure they are input correctly into the Council's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value • Reviewed the disclosures made by the Council in its financial statements to ensure they are in accordance with the requirements of the CIPFA Code of Practice and IFRS	Our audit work has not identified any issues in respect of the risk identified.

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Changes to the presentation of local authority financial statements	CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice. The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.	We have undertaken the following work in relation to this risk: • We documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements • We reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure • We reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) • We tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES • We tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger • We tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements • We reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice	*The Expenditure and Funding Analysis Note was a new disclosure requirement for the 2016/17 financial year. In the note included within the original draft accounts, the figures in the "As reported for resource management column" for both the 2015/16 and 2016/17 disclosures did not agree to the General Fund and HRA outturn reports presented to Cabinet.* *The adjustments to show the net expenditure chargeable to the General Fund and HRA and then the net expenditure in the Comprehensive Income and Expenditure Statement also were not clearly traceable to working papers. Management redrafted the note and provided revised working papers which we agreed were materially correct. This disclosure issue is included in the Adjusted Errors, Misclassifications and Disclosure Changes section later in this report.* *Once this was corrected, our audit work did not identify any further issues in respect of the risk identified.*

Going concern

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

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that the adoption of the going concern basis is reasonable.

Matters discussed with management

	Significant matter	Commentary	Auditor view
1	Discussions or correspondence with management regarding accounting practices, the application of auditing standards, or fees for audit or other services.	**HRA depreciation** The Council uses the major repairs allowance (MRA) calculation as a proxy for depreciation as allowed by the CIPFA Code. This was a transitional arrangement for five years ending in 2016/17/ There is a difference of £1.2m between the actual depreciation in year for the housing stock and the MRA calculation which has resulted in a difference of the same amount between the fixed asset register and the PPE note in the financial statements . The 2016/17 financial statements are fairly stated as the Code requirements have been followed for this year. An adjustment between the Housing Revenue Account and Major Repairs Reserve has correctly been accounted for to resolve the difference set out above.	This is the final year in which the Council can use MRA as a proxy for depreciation so new accounting arrangements and working papers will be required to support the 2017/18 financial statements. There will be an impact on preparing the financial statements and reconciling the historical accounting records with the fixed asset register to ensure the 2017/18 PPE note fully agrees to the financial statements. We have made a recommendation in Appendix A. Management is aware of the changes and accept the recommendation.

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Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Oportunitas Ltd	No	Analytical	None	Desktop review of consolidation	*Our audit work identified that the consolidation of the Opportunitas Ltd entries in the Group financial statements did not correctly account for the intercompany balances.* *The final version of the Group Balance Sheet has been amended to correctly account for the intercompany entries. See page 20 for further details.*

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• revenue from the sale of goods is recognised when the Council transfers the significant risk 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 Council • revenue from council tax and business rates is measured at the full amount receivable (net of impairment losses) as they are non-contractual, non-exchange transactions. Revenue from non-exchange transactions is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council and the amount of revenue can be measured reliably. • revenue from the provision of services is recognised when the Council 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 Council. • Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the grants or contributions, and reasonable assurance that the amounts will be received. • 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. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for income that might not be collected.	The revenue recognition policies are appropriate and in accordance with the CIPFA Code and International Financial Reporting Standards (IFRS)	Green

Assessment
- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

.

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	Key estimates and judgements include: – Useful life of PPE – Land and building revaluations – Impairments – Expenditure and Income Accruals – Valuation of pension fund net liability – Provision for NNDR appeals	Our review of key judgements and estimates did not identify any significant issues.	Green
Going concern	The Corporate Director of Organisational Change, s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice.	The Council's accounting policies are appropriate and consistent with previous years.	Green

Assessment
- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Other communication requirements

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

	Issue	Commentary
1.	**Matters in relation to fraud**	The Audit and Governance Committee considers the risk of fraud. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	**Matters in relation to related parties**	From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	**Matters in relation to laws and regulations**	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	**Written representations**	• A standard letter of representation has been requested from the Council. • We are expecting to receive the signed letter at the 26 July Audit and Governance Committee.
5.	**Confirmation requests from third parties**	We obtained direct confirmations from the Public Works Loans Board for loans and requested from management permission to send confirmation requests to counterparties for bank and investment balances. This permission was granted and the requests were sent. We are still awaiting responses from some of the bodies. We have undertaken alternative audit procedures, as allowed under the ISA, and have obtained assurance over the year end balances included in the financial statements.
6.	**Disclosures**	Our review found no material omissions in the financial statements.
7.	**Matters on which we report by exception**	• We are required to report on a number of matters by exception in a number of areas: Subject to the outstanding work highlighted on pages 5 and 6 of this report, we have not identified any issues we would be required to report by exception in the following areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.
8.	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. • Note that work is not required as the Council does not exceed the threshold.

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Internal controls

	Assessment	Issue and risk	Recommendations
1.	● Amber	*We identified two errors in relation to the risks stated above:* • *one error in the operating expenditure testing in relation to the accounting treatment of a prepayment. We extrapolated the error over the population tested and the total error anticipated in the CIES is below trivial so no further reporting is required.* • *one error in the unrecorded liabilities testing in relation to an invoice totalling £1,960 that should have been accounted for partly in 2016/17 (£660) instead of all the invoice total in 2017/18. We extrapolated the error over the population tested and the total error anticipated in the CIES is below trivial so no further reporting is required.* *The main risk is that expenditure would be misstated due to missing accounting entries in the accounts.*	*The Council should set a de-minimus level below which it is considered unnecessary to accrue for reasons of materiality and practicality.* *This recommendation has been included in the Action Plan in Appendix A.*
2.	● Amber	*We identified one error in the soft loans testing. The loan had been repaid during the 2016/17 year but was still recorded as an outstanding debtor at year end. We extrapolated the error over the population of soft loans and the maximum potential misstatement is £421k so no amendment is required.* *The main risk is that debtors would be overstated in the accounts.*	*The Council should review the process for the legal team to update housing records of the final loan repayments in the year.* *This recommendation has been included in the Action Plan in Appendix A.*

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

We have reviewed the Action Plan recommendations within our 2015/16 Audit Findings Report. None related to controls weaknesses and all have either been responded to appropriately by management or have been reinstated as recommendations in the Action Plan in Appendix B to this report.

Assessment

- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

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

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	***Group Balance Sheet*** *Intercompany debtor and creditor loans from the Council to Opportunitas Ltd were not adjusted as part of the consolidation of the company in to the group accounts.* *Dr Short term creditors* *Dr Long term borrowing* *Dr Unusable reserves* *Cr Long term investments* *Cr Long term debtors* *Cr Short term debtors*	*0*	 *190* *3,211* *473* *(473)* *(3,131)* *(270)*	*0*
	Overall impact	***£ Nil***	***£ Nil***	***£ Nil***

Unadjusted misstatements

There are no adjustments identified during the audit which we request be processed, but which have not been made within the final set of financial statements.

Misclassifications and disclosure changes

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

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Disclosure	440	Note 32 Grant Income	Capital grants and contributions in Note 32 were originally shown as a total of £3,541k. This was incorrect and should have been £3,981k as per the total in Note 13 and per the general ledger.
2	Disclosure	104	Note 32 Grant Income	£104k of grant income in Note 32 was originally categorised as 'Non-service related grants' and should have been credited to services as 'Other grants and contributions'.
3	Disclosure	Various	Note 23 Pensions Reserve	Actuarial (gains) or losses on pensions assets and liabilities shown as £(5,545)k should have been £12,286k. The description of this entry also needed to be amended to "Remeasurement of net defined liability" in line with new presentation guidelines. Reversal of items relating to retirement benefits in Comprehensive Income and Expenditure Statement shown as £22,756k should have been £4,745k.
4	Disclosure	1,015	Note 14 Property, Plant and Equipment	The Council has made disposals in the year but these are not shown in the PPE note. These were incorrectly shown as 'assets reclassified as (to)/from held for sale but this disclosure can only be used for assets transferred during the year and held as at 31 March. The heading in the note should be changed to disposals.
5	Misclassification	3,071	Note 14 Property, Plant and Equipment	*The 'other movements' line in the Cost or Valuation and Depreciation and Impairment sections of the note was misstated for: Council Dwellings by £1m; Land and Buildings by £0.331m; Vehicles, Plant and Equipment by £0.423m; and Infrastructure by £1,317m. The grossing up of the balances was due to the incorrect treatment of the valuation and impairment in the note of capital expenditure.* This reclassification also brings Note 14 into line with the amounts shown in Note 10 for the exceptional items valuation movements on Council Dwellings. *Narrative has also been added to explain the 'other movements' lines in the note.*

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Misclassifications and disclosure changes continued

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

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
6	Disclosure	1,400	Note 17 Short Term Debtors	The provision for impairment of £0.2m stated in the Note 17 was incorrect and was updated to the correct total provision for impairment against short term debtors of £1.4m. *As the bad debt provision is material for 2016/17, the Council is required to show the figures in a table with the gross figures and bad debt provision totalling the net position in the Balance Sheet. We have accepted the bad debt provision as narrative in the note for 2016/17 and management will reflect the Code requirements in future.*
7	*Disclosure*	*3,360*	*Note 16 Financial Instruments*	*Soft loans were incorrectly disclosed in the 2016/17 'Long term other debtors' line in the financial instruments note. Soft loans are not financial instruments so should not be included. The Council has added further narrative to sub-note 2 of the disclosure table to explain the amounts. These were correctly excluded in 2015/16 so no amendment to the prior year figures.* *In addition, a number of other amendments were made to the note:* • *Financial Instruments – Balances: Current loans and receivables of £1,367k amended to £1,768k* • *Financial Instruments – Balances: Current other debtors of £6,416k amended to £6,210k* • *Financial Instruments – Fair Values: Short term creditors balance should not have brackets – the amendment impacts on the total value* • *Financial Instruments – Fair Values: Short term debtors of £7,783k amended to £7,969k.*
8	*Disclosure*	*Various*	*Note 19 Assets Held for Sale*	*The note has been amended for the incorrect disclosure of the 'Property, Plant and Equipment' additions of £1,015k and 'Assets Sold' of £1,833k. These should have been disclosed as £nil and £818k respectively.*
9	*Disclosure*	*Various*	*Note 33 Related Party Transactions*	*The disclosures in the note were not the final figures for the transactions with the external bodies at year end. The note has been amended to disclose:* • *Amounts due to Kent County Council: £1,571k amended to £1,382k* • *Amounts due from Central Government: £3,286k amended to £3,165k* • *Amounts due from Oportunitas Ltd: £1,378k amended to £3,347k*
10	*Disclosure*	*100*	*Note 36 Defined Benefit Pensions*	*In the sensitivity analysis adjustment to long term salary increments present value of total obligation, the £161,371k figure should be £161,271k per the actuarial report.*

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Misclassifications and disclosure changes continued

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

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
11	*Disclosure*	*n/a*	*Note 37 Contingent Liabilities*	*The East Kent Housing Ltd figures had not been updated for the 2016/17. The disclosure has been amended to show the pension liability as an increase from the prior year of £7.3m to £10.2m.*
12	*Disclosure*	*450*	*Note 41 Interests in companies and other entities*	*The East Kent Housing Ltd figure for 'Loss after taxation' was incorrectly included as £1,613k and should have been £1,163k per the accounts. This resulted in a casting error through the note so the Total Comprehensive income and expenditure should have been £3,090k.*
13	*Disclosure*	*Various small amendments*	*Note 16 Financial Instruments*	*There were several small errors/misclassifications in the financial instruments disclosure: current loans and receivables 2017 £1,367k was amended to £1,768k, current other debtors of £6,416k was amended to £6,201k.*
14	*Disclosure*	*Various amendments*	*Note 2 Expenditure and Funding Analysis*	*The note was revised so that the figures in the "As reported for resource management column" for both the 2015/16 and 2016/17 disclosures agreed to the General Fund and HRA outturn reports presented to Cabinet, and the "Net expenditure chargeable to the general fund and HRA balances" agreed to the movement in reserves statement.*
15	Disclosure	n/a	Various	A small number of casting and consistency amendments have been made to the draft accounts. These are all of clearly trivial nature so have not been reported individually.

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Section 3: Value for Money

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

> *In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2017 and identified a significant risks in respect of a specific area of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated 6 March 2017.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Your arrangements for updating and developing your Medium Term Financial Strategy;
- Discussion and review of governance arrangements and decision making processes around capital investments.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on page 25.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix B.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
Medium term financial resilience *Revenue Funding Gap* This financial year the Council is on track to achieve a £1.4m deficit outturn on its General Fund; this being a positive variance against an initial budget deficit of £3.9m. However, looking further ahead the latest version of the MTFS (published in August 2016) sets out a cumulative deficit position of around £3 million over the next four years primarily caused by the gradual reduction and then ceasing of Central Government revenue through to 2019/20. This gap in funding represents a significant challenge for the Council. To help address these challenges the Council is moving forward with a series of business process engineering reviews and is focused on maximising its revenue earning opportunities, for example, the acquisition of land at Otterpool Manor Farm. *Capital Investment* As part of your plan to benefit residents and to increase revenue funding for the region you have ambitious capital plans proposed in the form of a large Otterpool Park Garden City, and the redevelopment of Princess Parade. Both of these proposed developments have significant potential to bring funds into the area through housing and employment, but there are downside risks if not managed appropriately. The plans will require significant borrowing and careful treasury management and it is imperative that financial planning is robust and long term benefits can be demonstrated. In March 2016 the government produced Statutory Guidance on the Flexible Use of Capital Receipts. This provides for greater flexibility in the use of capital receipts. Given the greater flexibility there is more opportunity and risk attached to the Council's arrangements for delivery of strategic priorities.	• We reviewed the Council's arrangements for updating and developing its medium term financial planning, including the actions proposed to address the medium term financial shortfall. • We reviewed managements sensitivity analysis carried out to ensure that alternative outcomes are considered in the medium term planning. • We reviewed the governance arrangements and decision making processes which are planned before these large capital investment plans are approved. • We reviewed how the council has measured the public and financial benefits of these capital investments.	***Revenue funding gap*** *The Council achieved a better outturn position for 2016/17 than planned. The original budget showed a deficit of £3.9m and the outturn was an underspend of £1.45m. The reasons for the improved performance has been reported in the 2016/17 outturn report n July 2017.* *The Cabinet considered and approved the Council's final General Fund budget for 2017/18 and the council tax requirement at its meeting on 22 February 2017. This was then ratified by Full Council later that evening. The Council worked hard to close the original budget gap in 2017/18, moving from a medium term strategy funding gap of £1.54m to a balanced budget by year end. However, the budget does include a planned contribution from reserves of £1.59m which will see the General Fund reserve reduced to £3.9m by 31/3/18 and without this the outturn position is a deficit.* *Due to the East Kent merger proposals falling through in March 2017 the Council has had to reassess its revenue budget and future funding gaps. It is looking increasingly difficult to balance the budget in the future and there are large gaps in the MTFS proposals. Management has been realistic in its reporting to members and has identified that a different course of action is required to ensure that the budget is balanced in 2018/19 and beyond. As the Council is putti arrangements in place about the budget gap we are satisfied* ***Capital Investment*** *The Council is progressing with its capital investment plans although it is recognised that these are still at an early stage during the year. The Council has put in place proper arrangements for making decisions about the capital developments through its reporting to members. Governance arrangements are understood by key officers. The consultation with the public is made through its website.* *The Council needs to ensure that governance arrangements are maintained as the projects develop beyond the initial stages and that transparency is maintained. A full business case process should be used.* *There needs to be robust project and capital budget monitoring in place to ensure that the developments do not slip from the agreed timetables.* Based on our work we have found no evidence that the Council does not have proper arrangements and therefore the risk is mitigated.

Section 5: Fees, non-audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Proposed fee £	Final fee £
Council audit	60,458	*66,657**
Challenge work	TBC	TBC
Grant certification	11,166	TBC
Total audit fees (excluding VAT)	**71,624**	**TBC**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

**An additional fee of £6,199 has been proposed for the 2016/17 audit due to the additional work required for the quality of the working paper audit trails and on the EFA note. This fee is subject to approval by the PSAA and cannot be agreed as final until confirmed with them.*

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Fees for other services

Service	Fees £
Audit related services: • Certification of housing pooling capital receipts return	2,000
Non-audit services East Kent Partnerships Workshops	3,783

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

	Service provided to	Fees	Threat?	Safeguard
Audit related services	*Certification of housing pooling capital receipts return*	*2,000*	• *Self-interest*	*This is a recurring fee and therefore a self-interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total fee for the audit (£60,458) for the Council, and in particular to Grant Thornton UK LLP overall turnover. Furthermore, the work relates to audit related services for which there is a fixed fee and no contingent element to the fee. These factors are deemed to adequately mitigate the perceived self-interest threat to an acceptable level.*
Non-audit services	*East Kent Partnerships Workshops*	*3,783*	• *None*	*We have not identified any threats under the ethical standards for carrying out this review in conjunction with the other participating councils in East Kent. The fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total fee for the audit (£60,458) for the Council, and in particular to Grant Thornton UK LLP overall turnover. Furthermore, this is a fixed fee with no contingent element. These factors are deemed to adequately mitigate any perceived threat to an acceptable level.*
	TOTAL	***£5,783***		

The above non-audit services are consistent with the group's policy on the allotment of non-audit work to your auditor.

Section 6: Communication of audit matters

Communication to those charged with governance

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

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

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓
Matters in relation to the group audit including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

Appendices

A. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1.	**Working Papers** A thorough debrief between audit and the finance team is held in October to review working papers and audit trails to improve the quality for next year. The Council should consider setting up a review of working papers by senior members of the finance team to provide challenge about the agreement of balances to the supporting audit trails before being provided to audit	Medium	*Agreed* *Agreed*	*October 2017 / Head of Finance* *September 2017 / Head of Finance*
2.	**HRA Depreciation** The Council needs to ensure that the records supporting the calculation of HRA depreciation are clear with a reconciliation between the capital accounting notes and the fixed asset register.	Low	*Agreed*	*October 2017 / Group Accountant (Capital and Treasury Management)*
3.	***Accruals accounting limit*** *The Council should set a de-minimus level below which it is considered unnecessary to accrue for reasons of materiality and practicality.*	*Medium*	*Agreed*	*October 2017 / Head of Finance*
4.	***Soft loan records*** *The Council should review the process for the legal team to update housing records of the final loan repayments in the year.*	*Medium*	*Agreed*	*October 2017 / Group Accountant (HRA and Systems)*

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Controls
- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

B: Audit opinion

We anticipate we will provide the Group with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHEPWAY DISTRICT COUNCIL

We have audited the financial statements of Shepway District Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Authority Movement in Reserves Statements, the Group and Authority Comprehensive Income and Expenditure Statements, the Group and Authority Balance Sheets, the Group and Authority Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Organisational Change and auditor

As explained more fully in the Statement of Responsibilities, the Corporate Director of Organisational Change is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Organisational Change; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority and Group as at 31 March 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

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

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

Respective responsibilities of the Authority and auditor

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code of Audit Practice until we have completed our consideration of objections brought to our attention by local authority electors under Section 27 of the Act in respect of 2015/16. We are satisfied that these matters do not have a material effect on the 2016/17 financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

[Signature]

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

Grant Thornton UK LLP
Finsbury Square
London EC2A 1AG

[Date]

grant-thornton.co.uk

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Folkestone
Hythe & Romney Marsh
Shepway District Council

Grant Thornton UK LLP
Finsbury Square
London

EC2A 1AG

7 September 2017

Dear Sirs

Shepway District Council
Group Financial Statements for the year ended 31 March 2017

This representation letter is provided in connection with the audit of the group financial statements of Shepway District Council and its subsidiary undertaking as shown in Appendix 1 of this letter, for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the group and parent Authority financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

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

Financial Statements

i We have fulfilled our responsibilities for the preparation of the group and parent Council financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ("the Code") which give a true and fair view in accordance therewith.

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

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

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

Shepway District Council
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DX 4912 Folkestone

www.shepway.gov.uk

v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

vi We are satisfied that the material judgements used in the preparation of the group and parent Council financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

vii Except as disclosed in the financial statements:
a there are no unrecorded liabilities, actual or contingent
b none of the assets of the group or parent Council has been assigned, pledged or mortgaged
c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

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

ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

x All events subsequent to the date of the group and parent Council financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

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

xiii The group and parent Council financial statements are free of material misstatements, including omissions.

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

xv We believe that the group and parent Council’s financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the group and parent Council’s needs. We believe that no further disclosures relating to the group and parent Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xvi We have provided you with:

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

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

c unrestricted access to persons within the group and parent Council from whom you determined it necessary to obtain audit evidence.

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

xviii All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.

xix We have disclosed to you the results of our assessment of the risk that the group and parent Council financial statements may be materially misstated as a result of fraud.

xx We have disclosed to you all our knowledge of fraud or suspected fraud affecting the group and parent Council involving:

a management;

b employees who have significant roles in internal control; or

c others where the fraud could have a material effect on the group and parent Council financial statements.

xxi We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the group and parent Council’s financial statements communicated by employees, former employees, regulators or others.

xxii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the group and parent Council's financial statements.

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

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

Annual Governance Statement

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

Narrative Report

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

Approval

The approval of this letter of representation was minuted by the Audit and Governance Committee at its meeting on 26 July 2017.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position…………………………

Date…………………………….

Signed on behalf of the Council

Appendix 3

SHEPWAY DISTRICT COUNCIL

STATEMENT OF ACCOUNTS
2016/17

Folkestone
Hythe & Romney Marsh
Shepway District Council
www.shepway.gov.uk

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INTRODUCTION

The purpose of this Narrative Report is to offer an easily understandable guide to the most significant matters affecting the Council and reported in the Statement of Accounts. It provides an explanation in overall terms of the Council's performance and financial position, assisting in the interpretation of the accounting statements for 2016/17.

The Statement of Accounts for the year ended 31 March 2017 has been prepared and published in accordance with the Chartered Institute of Public Finance and Accountancy 'Code of Practice on Local Authority Accounting in the United Kingdom' and the Accounts and Audit Regulations 2015.

The Accounts and Audit Regulations 2015 require that the responsible Financial Officer certify that the Accounts present a 'true and fair view' of the financial position of the body including a Statement of its Income and Expenditure at the end of the financial year.

The regulations require that accounts should be certified no later than 30 June. The accounts must be published with the audit opinion and certificate and before that must have been approved by Members. The Council must use its best endeavours to secure approval and publication by no later than 30 September.

The Movement in Reserves Statement (MIRS) - Page 17

The Movement in Reserves 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 (CIES). These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The 'Net increase/decrease before transfers to Earmarked Reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Comprehensive Income and Expenditure Statement (CIES) - Page 18

The CIES consolidates all the gains and losses experienced by the Council during the financial year. As Local Authorities do not include any equity in their Balance Sheets, these gains and losses should reconcile to the overall movement in the net worth. The CIES comprises of the surplus or deficit on the provision of services and other CIES movements such as gains and losses on pension fund assets and liabilities or changes in the fair value of assets.

This statement also 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.

The Balance Sheet - Page 19

The Balance Sheet shows the value as at the Balance Sheet date (31 March 2017) of the Council's assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories:

- The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).

- The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line: ‘Adjustments between accounting basis and funding basis under regulations’.

The Cash Flow Statement - Page 20

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. It 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 way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council’s future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

Expenditure and Funding Analysis - Page 35

The Expenditure and Funding Analysis demonstrates how the funding available to the Council for the year 2016/17 (i.e. government grants, rents, Council Tax and Business Rates) has been used to provide services in comparison with those resources consumed or earned under generally accepted accounting practice (GAAP). The Expenditure and Funding analysis also shows how this expenditure is allocated for decision making purposes between the Council’s directorates. Income and expenditure accounted for under GAAP is presented more fully in the Comprehensive Income and Expenditure Statement.

Housing Revenue Account (HRA) - Page 79

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 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 Housing Revenue Account Statement.

The Collection Fund - Page 84

The Collection Fund Statement reflects the statutory obligations for billing authorities to maintain a separate Collection Fund. It shows the transactions in relation to collection from taxpayers and distribution to local authorities and the Government of Council Tax and Non-Domestic Rates. It shows the impact of the Council retaining a proportion of the collected non-domestic rates.

Group Accounts - Page 87

The CIPFA Code of Practice requires Local Authorities to consider all their interests and to prepare a full set of group financial statements where they have material interests in subsidiaries, associates or joint ventures. Shepway District Council had established a subsidiary company during the last financial year for the purpose of housing and regeneration initiatives, and is therefore required to prepare group financial statements in accordance with IFRS 10. The company is called Oportunitas Limited.

Annual Governance Statement - Page 96

The Annual Governance Statement is included alongside the accounting statements. It sets out the conclusions of the council’s review of internal control for 2016/17 as required by the Accounts and Audit Regulations 2015 and follows the guidance on best practice: *Delivering Good Governance in Local Government* issued by CIPFA in 2016. The Annual Governance Statement describes the council’s governance framework and reviews its effectiveness.

SHEPWAY DISTRICT

Shepway is a coastal district in south eastern England and home to a rich and diverse collection of towns, villages and environments. Chiefly rural in nature, the district is large and covers approximately 363 sq. km (140 square miles). It has excellent existing infrastructure and connections: by road (M20); by rail (high speed, Eurostar services and local lines); and by air (London Ashford Airport at Lydd). Shepway is also home to the Channel Tunnel at Folkestone and is just a short distance from the UK’s busiest ferry port at Dover. It offers ideal opportunities for business growth and for attracting inward investment to the area.

As well as attractive countryside and a stunning coastline, the district also benefits from several award winning parks and recreational areas run by the District Council such as the Lower Leas Coastal Park and the Royal Military Canal. The north of Shepway is predominately, but not exclusively, Kent Downs Area of Outstanding Natural Beauty. Much of the Romney Marsh is designated by the Environment Agency as Flood Zone 3a. Folkestone is the primary town, accounting for just under half of Shepway's 108,000 population (2011 census).

SHEPWAY DISTRICT COUNCIL

The Council consists of 30 councillors representing 13 wards. The political make-up of the Council is:

Conservative Party	23 Councillors
UK Independence Party	6 Councillors
Independent	1 Councillor

The Council has adopted the Leader and Cabinet model as its political management structure arising from the Local Government and Public Involvement in Health Act 2007. The Leader of the Council has responsibility for the appointment of Members of the Cabinet, the allocation of Portfolios and the delegation of Executive Functions. Cabinet Members are held to account by a system of Scrutiny which is also set out in the Constitution. Scrutiny of Executive decisions during 2016/17, including the setting of a balanced budget for 2017/18, has been undertaken by the Overview and Scrutiny Committee.

COUNCIL PERFORMANCE 2016/17

The Vision for Shepway is to be prosperous and ambitious - working for more jobs and homes in an attractive district. In order to achieve this Vision, during 2016/17, the Council had five strategic objectives:

- Boost the local economy and increase job opportunities
- More homes
- Listening to local people
- Support an attractive and vibrant place to live; and
- Deliver value for money.

The Council's Performance Management Framework defines the organisational approach for reporting information to Corporate Management Team and Members.

The Corporate Plan is the central document to the framework and updates against its delivery are required to be regularly reported to Corporate Management Team, Members and the public. It sets out the framework for delivering the Council's priorities over the next five years, outlining the strategic objectives, priorities and key actions required to meet the vision for the Council and district.

Service planning is an integral part of the corporate planning process, linking the Council's strategic aspiration (Corporate Plan) to team performance (service plans) and individual performance (performance reviews), in order to effectively manage resources and deliver high quality services

As part of the service planning process, Heads of Service and Service Managers have identified performance indicators that will assist in improving services and delivery of corporate objectives. These performance indicators are monitored regularly and quarterly performance reports are provided for Members and management to review. Key Performance Indicators form part of a quarterly corporate performance report to the Council's Corporate Management Team and Members. These performance indicators have been selected as they will provide assurance that key Council services are performing effectively. As part of continuous performance monitoring, Corporate Management Team and Members can also request that additional Performance Indicators are be included in the quarterly report.

Strategic risks are documented in the Corporate Risk Register, which is reviewed and published three times a year. Operational risks are collated when service plans are prepared.

Services' Business Continuity Plans are reviewed annually and updated within the same timetable as Service Plans.

The Council's Vision is embedded into the culture of the organisation through the staff induction process, regular staff briefings by senior management and through communications on the staff Intranet.

The Medium Term Financial Strategy (MTFS) ensures that the Council's plans are affordable and deliverable. It contains projections of the Council's financial position over the next four years and identifies ways to address any shortfall. The MTFS is updated annually.

At a time of reducing resources, the Council is committed to delivering value for money, ensuring cost effectiveness in the services provided, making best use of resources and assets, and focussing on those areas which will have a transformational effect for the people of Shepway and provide longer term sustainability.

PARTNERSHIP WORKING

The Council has a partnership policy which sets out the Council's vision and scope for partnership working. Key partnerships and alternative service delivery models include:

East Kent Housing Limited, an Arm's Length Management Company set up to manage the retained housing stock of four councils in East Kent.

Shepway Community Safety Partnership (CSP) which oversees key multi–agency sub-groups that deliver activity for the CSP, covering safeguarding, health and wellbeing, gangs' migration & new communities, clean, green, safe and reducing and preventing re-offending.
Oportunitas Limited, the housing and regeneration company, formed in 2014 to assist the Council in achieving its priorities for regeneration, deliver more homes and provide a delivery vehicle for profitable traded services.

South Kent Coast Health and Wellbeing Board, a sub-committee of the Kent Health and Wellbeing Board, made up GPs, district and county councillors, senior local government officers and the voluntary and community sector. The aim of the Board is to improve the quality of life, health and wellbeing, including mental wellbeing, for residents.

The East Kent Audit Partnership – a shared service arrangement with Dover, Canterbury and Thanet councils.

EAST KENT DISTRICTS MERGER PROPOSALS

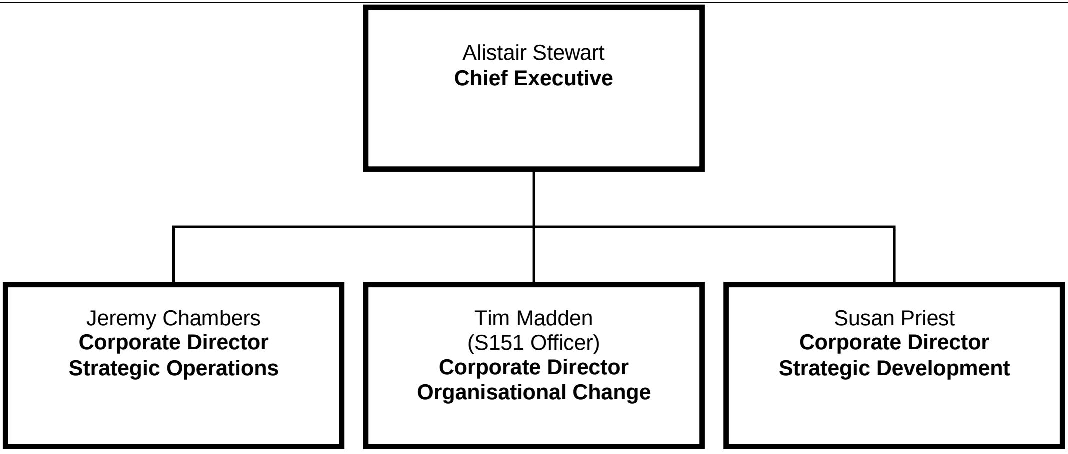
During 2016/17 the district councils of Canterbury, Dover, Shepway and Thanet explored a high level business case for the feasibility of the abolition of the local government district areas of Canterbury, Dover, Shepway and Thanet and the constitution of a new local government district area of East Kent. After considering the latest business case on 22 March 2017 Council Members voted against pursuing this initiative any further for Shepway.

OTTERPOOL PARK GARDEN TOWN

In November 2016, the Government announced support and capacity funding of £750,000 for the Council to take forward Otterpool Park - A Garden Town for the Future. The Council and its partners are now working with residents in the district to develop a masterplan, so that a planning application can be submitted. This very long-term project, lasting for at least 30 years, will be developed gradually and shaped by the views and preferences of local people and businesses through ongoing and consistent engagement and consultation. The indicative budget for the Council's promoter activities for the project has been approved, taking account of partner contributions. The total costs of the project for the Council will include expenses incurred in its role as planning authority. In its preparations, there is a clear delineation between the Council's aspirations as a promoter and its statutory role as the planning authority and strong governance arrangements are in place to ensure this is robustly adhered to.

COUNCIL MANAGEMENT STRUCTURE

Supporting the work of Members is the organisational structure of the Council headed by the Corporate Management Team, led by the Chief Executive Alistair Stewart.



The Corporate Management Team is responsible for the delivery of Council services, directing improvements and future plans for Shepway district. It provides managerial leadership and supports Members in:

- Developing strategies;
- Identifying and planning resources;
- Delivering plans; and
- Reviewing the Council's effectiveness with the overall objective of providing excellent services to the public.

COUNCIL EMPLOYEES

At the start of April 2016 the Council employed 385 people; by March 2017 this had reduced slightly to 374. The Council's human resources objectives and service plan recognise the value and importance of Council staff in every aspect of the Council's work, sets out processes and procedures for staff engagement and development and ensures that human resources are managed as efficiently and effectively as financial and physical resources.

FINANCIAL PERFORMANCE 2016/17

OVERVIEW

The Council has consistently maintained a healthy reserves position and benefits from financial stability. This is reflected in the Council's effective monitoring of financial performance and maintaining a balanced budget reflected in forward planning as outlined in the four year Medium Term Financial Strategy (MTFS) reported to Cabinet in September 2016.

The MTFS has outlined its strategic objectives within the four year plan to support policies that generate additional funding. Those strategic objectives are aligned with the Council's priorities and vision in the Corporate Plan 2013-2018, agreed at Council in February 2014.

To support the MTFS objectives, the Council's main focus is to maximise income through new business incentives and to ensure that resources are managed effectively.

The Council has established a housing and regeneration company 'Oportunitas Limited' to provide additional income streams and maximise returns on its investments in the future. Other income streams such as Managed Property funds in Available for Sale Financial Instruments providing an increased rate of return were invested during the year.

Since 2013 the Government has provided additional incentives to increase funding and distribute reserves via the localisation of Business Rates and New Homes Bonus. These have been beneficial to the Council and are important elements of its financial planning. The impacts of changes to New Homes Bonus and 100% Business Rates retention that were announced during 2016/17 will have to be taken into account when updating future financial forecasts. However, the Government's decision to call a general election in June 2017 means that the Local Government Finance Bill, which included proposals for further business rates reform and localisation, will not complete its passage through Parliament. It will remain for the new Government to set its priorities following the election and decide whether or not to reintroduce the Bill, thereby creating new uncertainties when planning the council's MTFS.

Within its MTFS the Council approved an Efficiency Plan that demonstrates how Council it will effectively manage its finances over the MTFS timeframe. During 2016/17 the Council received Government approval to the Plan and is taking up the opportunity to make flexible use of capital receipts, whereby income from the disposal of capital assets in the period April 2016 to March 2019 can be used to fund revenue spending to generate ongoing savings. Initially capital receipts amounting to £0.98m have been earmarked to support investment in the Council's IT infrastructure and service transformation to deliver ongoing budget savings.

Both the MTFS and Corporate Plan are regularly reviewed to ensure that the Council is well-placed to react to the new challenges it faces.

GENERAL FUND

The table below summarises General Fund (GF) expenditure for 2016/17. The final deficit to the GF Reserve for the year was £0.806m, which was £3.021m less than the budgeted withdrawal of £3.827m. The net transfer to Earmarked Reserves was £1.437m compared to a budgeted use of £3.105m. Overall the addition to the GF Reserve including Earmarked Reserves was £0.631m.

General Fund	Original Budget £000s	Actual £000s
Service Expenditure	18,619	16,870
Interest Payable and other capital financing costs	6,797	3,311
Interest Receipts and non-service grants	(3,348)	(4,770)
Net Service Expenditure	22,068	15,411
Parish Precepts	1,827	1,829
Amount to be met from Government Grant/Taxpayers	23,895	17,240
Transfer to Collection Fund	(589)	(197)
Government Grants (non-service)	(1,736)	(1,736)
Council Tax Payers	(10,839)	(11,073)
Business Rate Payers	(3,799)	(4,865)
Surplus	6,932	(631)
Contributions to/(from) Earmarked Reserves	(3,105)	1,437
(Surplus)/Deficit to General Fund Reserve	3,827	806

HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) general reserve at the end of 2016/17 was £7.4m (see page 79), which is £5.845m better than the latest approved budget. Overall, there was a net surplus for 2016/17 of £1.516m.

The main reasons for the change in the HRA balance are:

	£000s
Revenue contribution to capital expenditure	(4,218)
Repayment of debt	(900)
Repairs and maintenance – void repairs, Mears, planned maintenance, RTB Flats (Communal) and asbestos removal	(326)
General Management – recharges, premises insurance, HRA new builds and stock condition survey	(176)
Provision of bad or doubtful debts	(105)
Dwelling rents due to increase in sheltered accommodation rents and acquisitions	(80)
Gain on sale of HRA fixed assets	(75)
HRA share of corporate and democratic core	(13)
Other changes	(10)
Charges for services and facilities	28
Loan charges interest	15
Pensions interest cost	15
	(5,845)

Further information on the Housing Revenue Account can be found on pages 79-83.

CAPITAL PROGRAMME

The summary of the council's capital expenditure for 2016/17 is:

	Approved Budget £000s	Actual £000s	Variance £000s
General Fund	9,540	9,181	(359)
HRA	12,422	5,518	(6,904)
Total	21,962	14,699	(7,263)

The main reasons for the reduction were:

General Fund Schemes	£000s
Re-profiling of schemes between 2016-17 and 2017-18	(579)
Saving on cost of Digital Transformation Project eligible to be capitalised	(89)
Coronation Parade Coast Protection scheme – increase in coastal defence works met from additional Environment Agency grant	136
Disabled Facilities Grants and Loans – increase in demand met from Better Care Fund grant in-hand.	148
Other net changes	25
Total General Fund Schemes	(359)

HRA Schemes	
Re-profiling of New Build and Acquisition to 2017/18 and beyond	(5,794)
Re-profiling of major repairs and improvement schemes to 2017/18	(795)
Savings on major repairs and improvements schemes	(315)
Total HRA Schemes	(6,904)
Total reduction to the capital programme	(7,263)

The council's capital investment of £14.699m was on the following:

	£000s
Housing Revenue Account - properties	2,473
Housing Revenue Account – other	126
Housing Revenue Account – new builds and acquisitions	2,919
Coastal defence schemes	3,377
Private sector housing initiatives	3,165
Corporate property initiatives	1,475
Information technology initiatives	726
Property enhancements	327
Vehicle and equipment replacement	68
Other capital investment	43
Total Capital Expenditure for the year	14,699

The capital programme was financed as follows:

	£000s
Capital Receipts - general	1,756
Capital Receipts - HRA 1-4-1	876
Grants and Contributions	4,129
Borrowing	1,106
Revenue Contributions	4,359
HRA Major Repairs Reserve	2,473
	14,699

The council had £8.6m of unapplied capital resources at 31 March 2017 as follows:

	£000s
Unapplied Government grants and other capital contributions (Movement in Reserves Statement, page 17)	1,812
Capital Receipts (Movement in Reserves Statement, page 17)	6,773
	8,585

Of this amount £4m is planned to be applied in 2017/18, including £2.4m for the HRA acquisitions and new build programme, and a further £4.1m in future financial years.

EXCEPTIONAL ITEM – HRA VALUATION GAIN - Page 81

A full valuation exercise of the council's housing stock was undertaken as at 1 April 2015. In accordance with the Department for Communities and Local Government guidance issued in 2011, the valuation of council dwellings set at 32% has been changed to 33% of the open market value of £2.025m to reflect the economic cost of providing council housing at less than market rents.

The net impact of the housing stock valuation has resulted in a valuation loss of £1m being recognised, as an exceptional item, in the Income and Expenditure Account. This is because those assets affected had previous valuation losses charged to Income and Expenditure.

On the advice of the council's external valuer, the council's dwellings value of £136.2m has been increased by a further 6.5% i.e. £5.133m over the year to reflect the experience of property valuation changes seen in the south east of England. Again, a valuation gain has been taken to Income and Expenditure to reverse previous losses.

TREASURY MANAGEMENT FACILITIES

Note 16 on page 50 (under Financial liabilities at amortised cost) shows that the council's overall debt reduced by £0.6m, from £60.2m at 31 March 2016 to £59.6m at 31 March 2017. Despite the overall reduction in debt, the council's overall Capital Financing Requirement in 2016/17 increased by £0.7m from £65.2m to £65.9m (see note 34 page 65) because internal borrowing was used for the land acquisition at Biggins Wood, Folkestone.

The council's authorised borrowing limit for 2016/17 was £68.0m.

COLLECTION FUND

The Collection Fund (page 84) had an overall surplus balance of £2.083m at the end of 2016/17, £2.225m council tax surplus and £0.142m business rates deficit. In accordance with regulations the surplus and deficit will be shared between the major preceptors (council tax) and between the major preceptors and Government (business rates). The District Council's share of the surplus or deficit is recovered over 2017/18 and 2018/19.

Fund income in 2016/17 was £90.8m (£86.2m in 2015/16).

PENSION LIABILITY

Shepway District Council's net liability on the Kent County Council Pensions Fund at 31 March 2017 is £74.5m (£60.5m 31 March 2016), giving an increase in liability of £14m. Information about the increase can be found in note 36 on page 66.

Compliance with International Accounting Standard 19 Employee Benefits does not directly impact on the actual level of employer contributions paid to the pension fund. Employers' levels of contributions 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 movement to the Fund is set out in note 36 on page 66. The total liability has an impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains sound. The deficit on the scheme will be recovered through contributions over the remaining life of the employees as assessed by the actuary.

BREXIT

Following the referendum result on 23 June 2016 which meant that the United Kingdom is to leave the European Union (EU), the Prime Minister triggered Article 50 on 29 March 2017 which formally began this process. As there is still a degree of uncertainty regarding the implications, the risk associated with leaving the EU is not yet measurable. The impact will be closely monitored and any impacts considered and reported through the appropriate channels within the Council's governance structure.

AUDIT OF THE STATEMENT OF ACCOUNTS

The Council appointed Grant Thornton UK LLP for the audit of the accounts for the year ended 31 March 2017.

FURTHER INFORMATION

Further information about the statement of accounts is available from the Head of Finance, Civic Centre, Castle Hill Avenue, Folkestone, Kent CT20 2QY.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

This statement is given in respect of the Statement of Accounts 2016/17.

COUNCIL RESPONSIBILITIES:

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Corporate Director, Organisational Change, Timothy Madden
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the Statement of Accounts by 30 September.

CHIEF FINANCE OFFICER RESPONSIBILITIES

The Chief Finance Officer is responsible for the preparation of Shepway District Council's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy *2016/17 Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this Statement of Accounts, the Chief Finance officer has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code of Practice on Local Authority Accounting
- Kept proper accounting records which were up to date, and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

CERTIFICATION OF ACCOUNTS

I certify that the Statement of Accounts gives a true and fair view of the financial position of Shepway District Council at 31 March 2017 and its income and expenditure for the year then ended

Signed:

Timothy Madden CPFA
Corporate Director, Organisational Change

Date: 7 September 2017

APPROVAL OF ACCOUNTS

In accordance with the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts was approved by the Audit Committee on 26 July 2017.

Signed:

Councillor David Owen
Chairman, Audit and Governance Committee

Date: 7 September 2017

FINANCIAL STATEMENTS
MOVEMENT IN RESERVES STATEMENT

	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
2016/17	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Balance at 31 March 2016	**(16,738)**	**(5,864)**	**(6,392)**	**(2,397)**	**(1,056)**	**(32,447)**	**(66,899)**	**(99,346)**
Movement in reserves during 2016/17								
Total Comprehensive Income and Expenditure	(2,875)	(7,808)	-	-		**(10,683)**	1,288	**(9,395)**
Adjustments between accounting basis and funding basis under regulations (Note 9)	2,244	6,292	(381)	(1,434)	(756)	**5,965**	(5,965)	**-**
(Increase) or Decrease in 2016/17	**(631)**	**(1,516)**	**(381)**	**(1,434)**	**(756)**	**(4,718)**	**(4,677)**	**(9,395)**
Balance at 31st March 2017 carried forward	**(17,369)**	**(7,380)**	**(6,773)**	**(3,831)**	**(1,812)**	**(37,165)**	**(71,576)**	**(108,741)**
2015/16 (restated)								
Balance at 31 March 2015	**(15,456)**	**(4,252)**	**(6,831)**	**(1,058)**	**(748)**	**(28,345)**	**(39,491)**	**(67,836)**
Movement in reserves during 2015/16								
Total comprehensive Income and Expenditure	1,705	(18,817)	-	-	-	**(17,112)**	(14,398)	**(31,510)**
Adjustments between accounting basis and funding basis under regulations (Note 9)	(2,987)	17,205	439	(1,339)	(308)	**13,010**	(13,010)	**-**
(Increase) or Decrease in 2015/16	**(1,282)**	**(1,612)**	**439**	**(1,339)**	**(308)**	**(4,102)**	**(27,408)**	**(31,510)**
Balance at 31st March 2016 carried forward	**(16,738)**	**(5,864)**	**(6,392)**	**(2,397)**	**(1,056)**	**(32,447)**	**(66,899)**	**(99,346)**

Note: Where appropriate the General Fund and HRA Fund Balances include Earmarked Reserves as shown in note 10. The restated 2015/16 MIRS has been amended to incorporate the Earmarked Reserves, previously shown separately, within the General Fund.

FINANCIAL STATEMENTS
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2015/16 Restated				2016/17		
Gross Expenditure	Income	Net Expenditure		Gross Expenditure	Income	Net Expenditure
£000s	£000s	£000s		£000s	£000s	£000s
			Continuing Operations			
153	(2)	838	Leadership Support	1,039	(11)	1,028
533	(533)	368	Communications	280	(15)	265
6,800	(2,052)	5,212	Democratic Services and Law	7,644	(2,377)	5,267
628	(514)	1,258	Human Resources	1,362	(383)	980
46,893	(44,889)	2,600	Finance	45,600	(42,029)	3,571
6,564	(1,910)	2,901	Communities	5,094	(2,264)	2,830
500	(76)	330	Strategic Development Projects	1,519	(553)	966
1,513	(95)	1,126	Economic Development	620	(63)	557
1,656	(613)	357	Planning	1,366	(552)	814
6,866	(3,421)	3,010	Commercial and Technical	8,169	(4,893)	3,277
15,264	(16,251)	(987)	Local Authority Housing (HRA)	7,707	(10,340)	(2,633)
(19,391)	-	(19,391)	Local Authority Housing (HRA) - exceptional item (Note 6)	(6,158)	-	(6,158)
67,979	**(70,356)**	**(2,377)**	**(Surplus)/Deficit on Continuing Operations**	**74,242**	**(63,478)**	**10,764**
3,729	(1,298)	2,431	Other operating expenditure (Note 11)	2486	(1,062)	1,424
6,788	(2,697)	4,091	Financing and investment income and expenditure (Note 12)	5854	(2,796)	3,058
6,488	(27,745)	(21,257)	Taxation and non-specific grant income (Note 13)	6610	(32,539)	(25,929)
84,984	**(102,096)**	**(17,112)**	**(Surplus) or Deficit on Provision of Services**	**89,192**	**(99,875)**	**(10,683)**
		(6,031)	(Surplus) or deficit on revaluation of non-current assets (Note 23)			(11,081)
		(142)	(Surplus) or deficit on revaluation of Available for Sale assets			82
		(8,225)	Re-measurement of net defined liability (Note 36)			12,286
		(14,398)	**Other Comprehensive Income and Expenditure**			**1,288**
		(31,510)	**TOTAL Comprehensive Income and Expenditure**			**(9,395)**

NB. An analysis of the restatement of the CIES from the original format to the above revised format can be found in Note 42 page 78

BALANCE SHEET

31-Mar-16 £000s		Note	31-Mar-17 £000s
145,459	Council dwellings	14	159,132
14,271	Other land and buildings	14	14,749
1,811	Vehicles, plant, furniture and equipment	14	1,598
11,883	Infrastructure assets	14	10,923
3,461	Community assets	14	3,461
259	Surplus assets	14	259
289	Assets under construction	14	4,628
6,753	Investment property	15	7,831
254	Intangible assets	-	185
16,517	Long term investments	16	7,408
6,452	Long term debtors	16	8,466
207,409	**Long Term Assets**		**218,640**
14,652	Short term investments	16	22,637
795	Assets held for sale	19	-
9	Inventories	-	10
9,233	Short term debtors	17	9,823
1,229	Cash and cash equivalents	18	4,368
25,918	**Current Assets**		**36,838**
(731)	Short term borrowing	16	(1,813)
(11,540)	Short term creditors	20	(11,208)
(299)	Capital grants received in advance	-	(97)
(1,445)	Provisions	21	(1,281)
(14,015)	**Current Liabilities**		**(14,399)**
(59,447)	Long term borrowing	16	(57,755)
(60,452)	Net pensions liability	36	(74,516)
(67)	Provisions	21	(67)
(119,966)	**Long Term Liabilities**		**(132,338)**
99,346	**Net Assets**		**108,741**
(32,447)	Usable reserves	22	(37,165)
(66,899)	Unusable reserves	23	(71,576)
(99,346)	**Total Reserves**		**(108,741)**

I certify that the accounts present a true and fair view of the financial position of the Council and of its income and expenditure for the year ended 31 March 2017.

Timothy Madden CPFA
Corporate Director - Organisational Change
Date 7 September 2017

CASH FLOW STATEMENT

2015/16 £000s		Note	2016/17 £000s
17,112	Net surplus or (deficit) on the provision of services		**10,683**
(7,758)	Adjustments to net surplus or (deficit) on the provision of services for non-cash movements		**4,453**
(2,946)	Adjustments for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities		**(7,782)**
6,408	**Net cash flow from operating activities**	24	**7,354**
(16,339)	**Net cash flow from investing activities**	26	**(3,549)**
(2,294)	**Net cash flow from financing activities**	27	**(666)**
(12,225)	**Net increase or decrease in cash and cash equivalents**		**3,139**
13,454	Cash and cash equivalents at the beginning of the reporting period		1,229
1,229	**Cash and cash equivalents at the end of the reporting period**	18	**4,368**

1. ACCOUNTING POLICIES

1.1 General Principles

This Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year end of 31 March 2017. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 which require preparation 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) and statutory guidance issued under section 12 of the Local Government Act 2003.

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

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.

- revenue from the sale of goods is recognised when the Council transfers the significant risk 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 Council.
- revenue from council tax and business rates is measured at the full amount receivable (net of impairment losses) as they are non-contractual, non-exchange transactions. Revenue from non-exchange transactions is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council and the amount of revenue can be measured reliably.
- revenue from the provision of services is recognised when the Council 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 Council.
- 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. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for income that might not be collected.

1.3 Grants and Contributions

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

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

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

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

Where capital grants are credited to the CIES they are reversed out of the General Fund Balance in the MIRS. 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.

1.4 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

1.5 Exceptional Items

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

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

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

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

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

1.7 Overheads and Support Services

The costs of the Council's overheads and support services are fully charged to those that benefit from the supply or service, substantially in accordance with CIPFA's Service Reporting Code of Practice 2016/17 (SeRCOP). Charges are based on various measurements, the most significant being time allocations for most officers, floor area for administrative buildings and facility usage for computer services. 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 Council's status as a multi-functional, democratic organisation.
- Non Distributed costs – cost of discretionary benefits awarded to employees retiring early (see Employee Benefits page 62), and any impairment losses chargeable on Assets Held for Sale.

Overheads are no longer recharged through the ledger (with the exception of those items outside the General Fund) but are held on spreadsheet to allow conformity with the requirements of various returns and reports which still require conformity with SeRCOP. This is in line with the 'Telling the Story' requirements of the 'Code'.

1.8 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the MIRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account to score against (Surplus) or Deficit on the Provision of Services in the CIES. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves 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, retirement and employee benefits, council tax and business rates income and financial instruments. They do not represent usable resources for the Council. These reserves are explained in the relevant policies, but in summary:

- the Revaluation Reserve and Capital Adjustment Account are capital reserves, they do not represent usable resources for the Council.
- the Capital Receipts Reserve is not available for revenue purposes, it is only available for capital purposes or to repay debt.
- the Pensions Reserve is a non-distributable reserve reflecting the net liability on the Council's proportion of the assets and liabilities in the pension scheme.

- the Financial Instruments Adjustment Account is a non-distributable reserve maintained to manage the accounting and statutory requirements of financial instruments.
- the Collection Fund Adjustment Account is a reserve required to maintain the difference between the amount of Council Tax and Business Rates income determined under accounting practice and the amount required to be credited to the General Fund under statute.
- the Accumulated Absences Account is required to maintain the difference between employee benefits charged to the General Fund under accounting practice and those that are charged under statute.

1.9 Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accrual basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost 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.

The Council has set a de minimus level in respect of the recognition of capital expenditure of £10,000.

Measurement

Items of Property, Plant and Equipment 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
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, where relevant.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the exchange transaction has no commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

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

- infrastructure, community assets and assets under construction - depreciated historical cost
- dwellings – current value, determined using the basis of Existing Use Value for Social Housing (EUV-SH)
- surplus assets – current value measurement basis is fair value, estimated at highest and best use from a market participant's perspective

- all other assets - current value, determined as the amount that would be paid for the asset in its existing use.

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

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

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

Where decreases in value are identified, they are accounted for by:

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

The Revaluation Reserve contains revaluations 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.

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 by:

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

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

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

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), assets that are not yet available for use (i.e. assets under construction) and housing dwellings where a notional major repairs allowance (MRA) is used.

Depreciation is calculated on the following bases:

- dwellings – notional MRA as a proxy for depreciation
- other buildings – straight line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – straight line allocation usually over 5-7 years
- infrastructure – straight line allocation usually over 20 years

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

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 charged based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

1.10 Componentisation

Componentisation shall be applied for depreciation purposes on enhancement, acquisition expenditure incurred and revaluations carried out from 1 April 2010. Components that are required to be depreciated separately are those that have a cost that is significant in relation to the total cost of the asset, a different useful life and a method of depreciation. Components of an asset will be separated where their value is significant in relation to the total value of an asset and where those components have different useful lives for the remainder of the asset for depreciation purposes.

Where there is more than one significant component part of the same asset with the same useful life, such component parts will be grouped together for depreciation purposes.

A component may be an individual item or similar items with similar useful lives grouped. Where a component is replaced or restored, the carrying amount of the old component will be de-recognised and the new component added. Where the carrying value of the de-recognised/replaced component is not known a best estimate will be determined by reference to the current cost.

Only assets with a gross book value of £1 million and over will be considered for componentisation. Of those assets, for the purpose of determining a “significant” component of an asset, components with a value of 25% in relation to the overall value of the asset or over £500,000 will be considered and only then if the component has a different useful life for depreciation purposes so as to result in depreciation charges that differ materially from the depreciation charges had the asset not been componentised.

On componentisation, any Revaluation Reserve balance will remain with the structure of the building. Any future revaluation gains will be applied across components as appropriate.

1.11 Disposals and Non-current Assets Held For Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES.

Gains in fair value are recognised only up to the amount of any previously recognised losses in the (Surplus) or Deficit on the Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held For Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals 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 Council's underlying need to borrow. Receipts are appropriated to the Reserve from the General Fund Balance in the MIRS.

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

1.12 Charges to Revenue for Non-Current Assets

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

- depreciation attributable to 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 losses can be written off
- amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the MIRS for the difference between the two.

1.13 Investment Property

An investment property is one that is used solely to earn rentals or for capital appreciation or both. 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 property is initially measured at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date.

As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Any gain or loss arising from a change in the fair value of investment property is recognised in the Financing and Investment Income and Expenditure line in the CIES The same treatment is applied to gains and losses on disposal.

Rentals received are credited to the Financing and Investment Income and Expenditure line in the CIES.

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 MIRS and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

1.14 Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

1.15 Borrowing Costs

All borrowing costs are recognised as an expense as they are incurred.

1.16 Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Long term contracts are accounted for on the basis of charging the (Surplus) or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

1.17 Employee Benefits

Benefits Payable During Employment

Short term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render the service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before the yearend which employees can carry forward into the next financial year.

The accrual is charged to the (Surplus) or Deficit on the Provision of Services, but then reversed out through the MIRS so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy.

They are charged on an accruals basis to the service area lines or where applicable, to the Non Distributed Costs line in the CIES at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for re-structuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the MIRS 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.

Post-Employment Benefits

Employees of the Council are members of the Local Government Pension Scheme, administered by Kent County Council (KCC). The Scheme provides defined benefits to members (retirement lump sums and pensions) earned as employees worked for the Council.

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

- the liabilities of the KCC pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employees turnover rates etc. and projections of earnings for current employees.
- liabilities are discounted to their value at current prices, using a discount rate of 3.6% based on the indicative rate of return on high quality corporate bond (annualised yield at the 19 year point on the Merrill Lynch AA rated corporate bond).
- the assets of the KCC pension fund attributable to the Council are included in the balance sheet at their fair value:
    - quoted securities-current bid price
    - unquoted securities-professional estimate
    - unitised securities-current bid price
    - property-market value
- the change in the net pensions liability is analysed into the following components:
  i) Service cost comprising:
    - current service cost-the increase in liabilities as a result of years of service earned for the year-allocated in the CIES to the revenue accounts of services for which the employees worked
    - past service cost-the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years-debited to the (Surplus) or Deficit on the Provision of Services in the CIES as part of Non-distributed Costs

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

ii) Re-measurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- actuarial gains and losses-changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions-debited or credited to the Pensions Reserve

iii) Contributions paid to the KCC pension fund-cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

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

1.18 Events After the Balance Sheet Date

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

- those that provide evidence of conditions that existed at the end of the reporting period – 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 authorisation for issue are not reflected in the Statement of Accounts.

1.19 Financial Assets

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 a quoted market price and/or do not have fixed or determinable payments.

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

However, the Council has made a number of renovation loans to home owners at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a higher effective rate of interest than the rate receivable from the borrower, with the difference serving to increase the amortised cost of the loan on 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 the amounts debited and credited to the CIES to the net gain required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the MIRS.

Where financial 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 CIES. 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/losses that arise from the de-recognition of an asset are credited/debited to the Financing and Investment Income and Expenditure line in the CIES.

Available for Sale assets
Available for sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the (CIES) for interest receivable are based on the amortised cost of the asset multiplied by the effective rate for the instrument. Where there are no fixed or determinable payments, income (eg dividends) is credited to the CIES when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

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

- equity shares with no quoted market prices – independent appraisal of company valuations.

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

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

Changes in fair value are balanced by an entry in the Available for Sale reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available for Sale assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the CIES, along with any net gain or loss for the asset accumulated in the Available for Sale reserve.

Where assets are identified as impaired because of a likelihood arising from a past event where payments due under the contract will not be made or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. If the asset has fixed or determinable payments, 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. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES, along with any accumulated gains or losses previously recognised in the Available for Sale reserve.

Where fair value cannot be measured reliably, the measurement is carried at cost (less any impairment losses).

1.20 Financial Liabilities

Financial liabilities are recognised when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable, plus any accrued interest, and interest charged to the CIES is the amount payable for the year in the loan agreement.

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

Where premiums and discounts have been charged to the CIES regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss that relates to the HRA, on a straight line basis, over the term of the loan repaid up to ten years in line with statutory requirements that relate to the HRA. The proportion relating to the General Fund, above a de minimus level of £10,000, is spread over the life of the replacement loan. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the MIRS.

1.21 Provisions, Contingent Assets and Contingent Liabilities

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made about the amount of the obligation.

Provisions are charged to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the position is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle the provision is expected to be recovered from a third party (e.g. 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 Council settles the obligation.

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 an outflow of resources 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.

1.22 Provisions for Bad and Doubtful Debts (impairment of loans and receivables)

The carrying amount of debtors is adjusted for doubtful debts, which are provided for, and known uncollectable debts are written off. This basis of provision is dependent upon the nature of the debt and for sundry debts takes into account material amounts that are settled in the first month of the financial year.

1.23 Value Added Tax

Value added tax is included in income and expenditure accounts only to the extent that it is irrecoverable.

1.24 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.

1.25 Fair Value Measurement

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

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

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use. The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

2. EXPENDITURE AND FUNDING ANALYSIS

2016/17	As reported for resource managerment	Adjustment to arrive at the net amount chargeable to the General fund and HRA	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000s	£000s	£000s	£000s	£000s
Leadership Support	883	207	1,090	(62)	1,028
Communications	231	50	281	(16)	265
Democratic Services and Law	5,749	(658)	5,091	176	5,267
Human Resources	829	218	1,047	(67)	980
Finance	4,960	(1,136)	3,824	(253)	3,571
Communities	2,670	307	2,977	(147)	2,830
Strategic Development Projects	642	353	995	(29)	966
Economic Development	490	52	542	15	557
Planning	708	192	900	(86)	814
Commercial and Technical	915	819	1,734	1,543	3,277
Local Authority Housing (HRA)	(8,791)	3,507	(5,284)	(3,507)	(8,791)
(Surplus)/Deficit on Continuing Operations	**9,286**	**3,911**	**13,197**	**(2,433)**	**10,764**
Other Income and Expenditure	(12,253)	(3,091)	(15,344)	(6,103)	(21,447)
(Surplus) or Deficit on Provision of Services	**(2,967)**	**820**	**(2,147)**	**(8,536)**	**(10,683)**
Opening General Fund and HRA Balance			**(22,602)**		
Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year			(2,147)		
Closing General Fund and HRA Balance at 31 March*			**(24,749)**		

* For a split of this balance between the General Fund and the HRA - see the Movement in Reserves Statement

2015/16	As reported for resource managerment	Adjustment to arrive at the net amount chargeable to the General fund and HRA	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000s	£000s	£000s	£000s	£000s
Leadership Support	815	(599)	216	(63)	153
Communications	322	(294)	28	(29)	(1)
Democratic Services and Law	5,647	(1,029)	4,618	129	4,747
Human Resources	806	(617)	189	(75)	114
Finance	3,586	(1,336)	2,250	(246)	2,004
Communities	2,961	1,842	4,803	(147)	4,656
Strategic Development Projects	372	82	454	(30)	424
Economic Development	951	452	1,403	15	1,418
Planning	477	653	1,130	(87)	1,043
Commercial and Technical	882	1,273	2,155	1,289	3,444
Local Authority Housing (HRA)	(20,192)	14,975	(5,217)	(15,162)	(20,379)
(Surplus)/Deficit on Continuing Operations	**(3,373)**	**15,402**	**12,029**	**(14,406)**	**(2,377)**
Other Income and Expenditure	1,699	(16,622)	(14,923)	188	(14,735)
(Surplus) or Deficit on Provision of Services	**(1,674)**	**(1,220)**	**(2,894)**	**(14,218)**	**(17,112)**
Opening General Fund and HRA Balance			(19,708)		
Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year			(2,894)		
Closing General Fund and HRA Balance at 31 March*			**(22,602)**		

* For a split of this balance between the General Fund and the HRA - see the Movement in Reserves Statement

3. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code requires the Council to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant year. Standards that are being introduced in 2017/18 are:

- Annual improvements to IFRSs 2010-2012 cycle
- Amendments to IFRS11 Joint Arrangements
- Amendment to IAS16 Property, Plant and Equipment and IAS38 Intangible Assets
- Annual improvements to IFRSs 2012-2014 cycle

It is anticipated that these amendments will not have a material impact on the information provided in the financial statements.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

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

Folkestone Parks and Pleasure Grounds Charity
The Council is the sole trustee of the Folkestone Parks and Pleasure Grounds Charity, a charitable trust that owns and operates certain parks and pleasure grounds previously managed by the Council. It has been determined that the Council does not have the power to control the Trust and it is therefore not a subsidiary of the Council. Further information is disclosed in note 39 on pages 74.

Joint waste and recycling contract
It has been concluded that the contract for waste collection and recycling entered into by the East Kent Waste Partnership, consisting of Shepway, Dover and Kent County councils, does not include an embedded lease in respect of the assets used to provide the service. Therefore, no assets have been recognised on the balance sheet and all contract payments have been accounted for as supplies and services within the appropriate service lines in the CIES.

East Kent Housing – Arms Length Management Organisation
The Council has a 25% interest in East Kent Housing Limited which has been classified as a joint venture with three other local authorities. Having due regard to both the quantitative and qualitative aspects of materiality the Council has concluded that the preparation of group accounts is not required.

Oportunitas Limited
The Council has set up a wholly owned subsidiary entity to generate additional income streams for the Council and to provide residential housing in the district. It is deemed that the relationship between the Council and Oportunitas is material enough to warrant the preparation of Group Financial Statements.

Heritage Assets:
The Council owns a stretch of the Royal Military Canal, a designated ancient monument. However, it is held and maintained principally as an amenity and for its ecological significance. In addition, it has land drainage functions. Due to its operational nature it has continued to be recognised within Plant, Property and Equipment as a community asset rather than a heritage asset.

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

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council may be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for non-housing assets would increase by £162K for every year that useful lives had to be reduced.
Pension 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 Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £1.6m. Further sensitivity analysis of factors affecting the Pensions Fund is set out in Note 36.
Arrears	At 31 March 2017, the Council had a balance of sundry debtors of £2.9m. A review of balances indicated that an impairment of doubtful debts of 35% (£1.1m) was appropriate. However, in the current economic climate it is not fully certain whether such an allowance may be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts, for example, would require an additional £1.1m to be set aside as an allowance.

Item	Uncertainties	Effect if actual results differ from assumptions
Provisions	The Council has made a provision for possible successful appeals to business rates rateable values. The provision is based on past experience and may not necessarily reflect future success, which can be due to a number of factors.	The business rates rateable value at 31/3/2017 was £73.4m. For every 1% successful reduction to the rateable value, it is equal to a cost of £142k to the Council (for a single year).
Fair value measurements	When the fair values of financial assets and liabilities cannot be measured based on quoted prices in active markets their fair value is measured using valuation techniques. Where possible, the inputs to these techniques are based on observable data but where this is not possible judgement is required. These judgements typically include considerations such as uncertainty and risk. Where quoted prices are not available the Council employs relevant experts to identify the most appropriate valuation technique to determine fair value. Information about the valuation techniques and inputs used in determining fair value is disclosed in notes 15 and 16.	Significant changes in any of the unobservable inputs would result in a significantly higher or lower fair value measurement for investment properties and financial instruments.

6. EXCEPTIONAL ITEMS

Three valuation issues affecting council dwellings have required an exceptional item of a net £6.158m credit to be recognised in the CIES and is summarised in the table below:

Issue	Description	£000s
i)	Increase in the statutory social housing factor adjustment from 1 April 2016 for council dwellings values from 32% to 33%, compared to the open market value, resulting in the reversal of a previous valuation loss charged to the CIES.	(2,025)
ii)	Valuation adjustment for council dwellings acquired during 2016/17 to reflect the statutory social housing factor of 33% compared to their open market value.	1,000
iii)	On the advice of the council's external valuer, the council's dwelling value has increased by a further 6.5% over the year in line with regional property valuation changes. Again, a valuation gain has been taken reversing previous losses.	(5,133)
		(6,158)

7. MATERIAL ITEMS OF INCOME AND EXPENSE

The Council incurs a significant proportion of spend on benefit payments, which is funded predominantly by government grant. The following amounts were incurred within the CIES on benefit payments (including administration).

2015/16				2016/17		
Gross Expenditure	Income	Net Expenditure		Gross Expenditure	Income	Net Expenditure
£000s	£000s	£000s		£000s	£000s	£000s
			Other Housing Services			
33,602	(33,398)	204	Housing Benefit	**31,289**	**(30,658)**	**631**
10,038	(9,988)	50	Housing Rebates	**9,747**	**(9,871)**	**(124)**

8. EVENTS AFTER THE BALANCE SHEET DATE

The date that the accounts were authorised for issue was the date that the Corporate Director – Organisational Change signed the Balance Sheet on page 19. That date was 7 September 2017. Events after the balance sheet date (31 March 2017) have only been considered up to the authorisation date.

Where events taking place before this date provided information about conditions existing at 31 March 2017, the figures in the financial statements and notes are adjusted in all material respects to reflect the impact of this information.

There have been no such events since the 31 March 2017.

9. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

Adjustments Between Accounting Basis and Funding Basis Under Regulations 2016/17	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
Adjustments primarily involving the Capital Adjustment Account						
Reversal of items debited or credited to the CIES:						
Charges for depreciation and impairment of non-current assets	(2,117)	(2,690)	-	-	-	4,807
Revaluation losses / gains on Property, Plant and Equipment	-	6,168	-	-	-	(6,168)
Amortisation of intangible assets	(88)	-	-	-	-	88
Revenue expenditure funded from capital under statute	(1,329)	-	-	-	-	1,329
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(1,077)	(1,083)	-	-	-	2,160
Insertion of items not debited or credited to the CIES:						-
Minimum Revenue Contribution for Capital Funding	405	-	-	-	-	(405)
Capital expenditure charged against the General Fund and HRA balances	2,190	2,169	-	-	-	(4,359)
Adjustments involving the Capital Grants Unapplied Account:						-
Capital grants and contributions unapplied credited to the CIES	4,886	-	-	-	(990)	(3,896)
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	234	(234)
Adjustments involving the Capital Receipts Reserve						-
Proceeds from Sale of Non-current Assets	1,493	1,741	-	(3,234)	-	
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	-	2,632	-	(2,632)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-	-	-	-	-	-
Contribution from the Capital Receipts Reserve to finance the payment to the Government capital receipts pool	(221)	-	-	221	-	-
Adjustments involving the Deferred Capital Receipts Reserve						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CIES	(3)	(3)	-	-	-	6
Adjustments involving the Major Repairs Reserve						-
HRA depreciation transfer	-	-	(3,907)	-	-	3,907
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	2,473	-	-	(2,473)
Adjustment involving the Financial Instruments Adjustment Account:						-
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	143	(24)	-	-	-	(119)
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the CIES	(4,655)	(90)	-	-	-	4,745
Employer's pensions contributions and direct payments to pensioners payable in the year	2,865	102	-	-	-	(2,967)
Adjustments involving the Collection Fund Adjustment Account:						
Amount by which council tax and business rates income credited to the CIES is different from council tax and business rates income calculated for the year in accordance with statutory requirements	(197)	-	-	-	-	197
Adjustment involving the Accumulated Compensated Absences Account:						
Adjustments in relation to short-term compensated absences	(51)	2	-	-	-	49
Total Adjustments	**2,244**	**6,292**	**(1,434)**	**(381)**	**(756)**	**(5,965)**

Adjustments Between Accounting Basis and Funding Basis Under Regulations

2015/16

	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
Adjustments primarily involving the Capital Adjustment Account						
Reversal of items debited or credited to the CIES:						
Charges for depreciation and impairment of non-current assets	(1,808)	(2,521)	-	-	-	4,329
Revaluation losses / gains on Property, Plant and Equipment	-	17,644	-	-	-	(17,644)
Amortisation of intangible assets	(87)	-	-	-	-	87
Revenue expenditure funded from capital under statute	(752)	-	-	-	-	752
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(537)	(1,002)	-	-	-	1,539
Insertion of items not debited or credited to the CIES:						
Minimum Revenue Contribution for Capital Funding	514	-	-	-	-	(514)
Capital expenditure charged against the General Fund and HRA balances	646	1,822	-	-	-	(2,468)
Adjustments involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the CIES	1,581	-	-	-	(560)	(1,021)
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	252	(252)
Adjustments involving the Capital Receipts Reserve						
Proceeds from Sale of Non-current Assets	24	1,365	-	(1,456)	-	67
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	-	1,671	-	(1,671)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-	-	-	-	-	-
Contribution from the Capital Receipts Reserve to finance the payment to the Government capital receipts pool	(224)	-	-	224	-	-
Adjustments involving the Deferred Capital Receipts Reserve						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CIES	(3)	(2)	-	-	-	5
Adjustments involving the Major Repairs Reserve						
HRA depreciation transfer	-	-	(3,900)	-	-	3,900
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	2,561	-	-	(2,561)
Adjustment involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	148	(24)	-	-	-	(124)
Adjustments involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the CIES	(4,775)	(174)	-	-	-	4,949
Employer's pensions contributions and direct payments to pensioners payable in the year	2,666	99	-	-	-	(2,765)
Adjustments involving the Collection Fund Adjustment Account:						
Amount by which council tax and business rates income credited to the CIES is different from council tax and business rates income calculated for the year in accordance with statutory requirements	(422)	-	-	-	-	422
Adjustment involving the Accumulated Compensated Absences Account:						
Adjustments in relation to short-term compensated absences	42	(2)	-	-	-	(40)
Total Adjustments	**(2,987)**	**17,205**	**(1,339)**	**439**	**(308)**	**(13,010)**

10. 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. Earmarked Reserves are shown in the MIRS as included in General Fund and HRA Fund balances as appropriate.

Earmarked Reserves	Balance at	Transfers		Balance at	Transfers		Balance at
	01-Apr-15	In	Out	31-Mar-16	In	Out	31-Mar-17
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
General Fund							
Business Rates	(1,830)	(1,027)	398	(2,459)	(413)	191	**(2,681)**
Leisure Reserve	(211)	(50)	14	(247)	(50)	150	**(147)**
Carry Forwards	(1,600)	(1,257)	1,207	(1,650)	(835)	1,368	**(1,117)**
Corporate Property	(20)	-	-	(20)	-	20	**-**
Vehicles, Equipment and Technology	(836)	(372)	265	(943)	(141)	208	**(876)**
Invest to Save	(381)	-	-	(381)	-	15	**(366)**
Maintenance of Graves	(12)	-	-	(12)	-	-	**(12)**
New Homes Bonus	(1,005)	(1,005)	253	(1,757)	(1,353)	679	**(2,431)**
Corporate Initiatives	(1,270)	(90)	133	(1,227)	-	472	**(755)**
IFRS Reserve	(145)	-	61	(84)	-	17	**(67)**
Further Education	(500)	-	500	-	-	-	**-**
Otterpool Park Garden Town	-	-	-	-	(2,490)	501	**(1,989)**
Economic Development	(2,000)	(251)	-	(2,251)	(276)	500	**(2,027)**
	(9,810)	**(4,052)**	**2,831**	**(11,031)**	**(5,558)**	**4,121**	**(12,468)**

Business Rates Reserve	To support business development and to manage the statutory accounting requirements of the Rates Retention Scheme.
Leisure Reserve	To meet future leisure improvements.
Carry Forwards Reserve	For items of expenditure not incurred or income not applied in the previous financial year but required in the new financial year to meet spending commitments.
Corporate Property Reserve	To meet corporate property improvements or repairs.
Vehicles, Equipment and Technology Reserve	To meet vehicle, equipment and technology replacement needs or improvements.
Invest to Save Reserve	To finance initiatives and projects that will in the medium term result in budget savings for the General Fund.
Maintenance of Graves Reserve	Amounts held in perpetuity to meet the cost of maintaining certain grave sites.
New Homes Bonus Reserve	To fund the anticipated additional cost of services over the next five years.
Corporate Initiatives Reserve	To support Corporate Plan objectives and goals.
IFRS Reserve	To manage the impact of the introduction of International Financial Reporting Standards particularly affecting immediate recognition of grants and contributions.
Further Education Reserve	To assist with the development of Further and Higher Education in Shepway.
Otterpool Park Garden Town Reserve	To fund the planned share of the Promoter and Local Planning Authority costs
Economic Development	Towards the regeneration of the district and to support the generation of new income.

11. OTHER OPERATING EXPENDITURE

Other Operating Expenditure	2015/16 £000s	2016/17 £000s
Parish precepts	1,557	**1,829**
Internal Drainage Board levies	427	**436**
Payments to the Government Housing Capital Receipts Pool	225	**221**
Gains or losses on the disposal of non-current assets	222	**(1,062)**
	2,431	**1,424**

12. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

Finacing and Investment Income and Expenditure

	2015/16 £000s	2016/17 £000s
Interest payable and similar charges	2,871	1,952
Net interest on net defined liability	2,151	2,127
Investment property rental income	(86)	(200)
Interest receivable and similar income	(785)	(849)
Income and expenditure in relation to investment properties and changes in their fair value	(60)	28
	4,091	**3,058**

13. TAXATION AND NON-SPECIFIC GRANT INCOMES

Taxation and Non-specific Grant Income	2015/16 £000s	2016/17 £000s
Council tax income	**(10,512)**	**(11,073)**
Non domestic rates	**(4,252)**	**(4,865)**
Non-ring fenced government grants	**(5,573)**	**(6,006)**
Capital grants and contributions	**(920)**	**(3,985)**
	(21,257)	**(25,929)**

14. PROPERTY, PLANT AND EQUIPMENT

(i) Measurement:

The Council's non-housing assets (excluding vehicles, plant, equipment, infrastructure and community assets) were re-valued at £10.6m as at 1 April 2014 by an external independent valuer – Taylor Riley Stafford, Chartered Surveyors.

The Council's housing assets were re-valued in April 2015 by Taylor Riley Stafford at £141m, of which £136m relates to council dwellings. The valuation of the council dwellings has increased from32% to 33% of the open market value for these assets based on their existing use value for social housing from 1 April 2016. This valuation adjustment is in accordance with Department of Communities and Local Government guidance issued in 2016 for council dwellings stock valuations in South-East England, reflecting the economic cost of providing council housing at less than open market rents.

Taylor Riley Stafford have also advised that, based on rental income values, the value of the various housing non-dwelling assets categories have risen over the year to March 2017 by:

Category	Increase %	Increase £000s
Garages	4.7	196
Parking Spaces	18.5	10
Stores	3	3

The Council is not aware of any material change since April 2016 in the value of its non-housing portfolio and therefore the valuation has not been generally uplifted.

(ii) Contractual Commitments

The Council has entered into the following long-term contracts on HRA properties:

- Heating replacement programme from 2012-2016 - approximately £0.45m per annum
- Kitchen and bathroom replacement 2010-2020 - approximately £0.50m per annum
- Window/door servicing and maintenance 2015-2020 approximately £0.19m per annum.

There is an option to extend the window/door servicing contract for a further two years.

Property, Plant and Equipment 2016/17	Council Dwellings £000s	Land and Buildings £000s	Vehicles, Plant and Equipment £000s	Infra-structure £000s	Community Assets £000s	Assets Under Construction £000s	Surplus Assets £000s	Total £000s
Cost or Valuation								
At 1 April 2016	**145,459**	**15,131**	**5,341**	**26,222**	**3,461**	**289**	**259**	**196,162**
Additions	4,104	808	210	357	-	4,339	-	9,818
Revaluation increases/(decreases) recognised in the Revaluation Reserve	10,763	320	-	-	-	-	-	11,083
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	6,145	-	-	-	-	-	-	6,145
Derecognition - Disposals	(1,015)	-	-	-	-	-	-	(1,015)
Other movements in cost or valuation #	(6,324)	(319)	-	-	-	-	-	(6,643)
At 31 March 2017	**159,132**	**15,940**	**5,551**	**26,579**	**3,461**	**4,628**	**259**	**215,550**
Depreciation and Impairment								
At 1 April 2016	**-**	**(860)**	**(3,530)**	**(14,339)**	**-**	**-**	**-**	**(18,729)**
Depreciation charge for the year	(3,664)	(331)	(423)	(1,317)	-	-	-	**(5,735)**
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(2,660)	(319)	-	-	-	-	-	**(2,979)**
Other movements in depreciation and impairment	6,324	319	-	-	-	-	-	**6,643**
At 31 March 2017	**-**	**(1,191)**	**(3,953)**	**(15,656)**	**-**	**-**	**-**	**(20,800)**
Balance Sheet amount at 31 March 2017	**159,132**	**14,749**	**1,598**	**10,923**	**3,461**	**4,628**	**259**	**194,750**
Balance Sheet amount at 1 April 2016	145,459	14,271	1,811	11,883	3,461	289	259	177,433

This represents the reversal of cumulative depreciation and impairment written out for assets that have subsequently been revalued during the year

Property, Plant and Equipment	Council Dwellings	Land and Buildings	Vehicles, Plant and Equipment	Infra-structure	Community Assets	Assets Under Construction	Surplus Assets	Total
2015/16	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Cost or Valuation								
At 1 April 2015	**125,023**	**14,769**	**4,976**	**25,507**	**3,461**	**1,376**	**259**	**175,371**
Additions	4,250	185	430	672	-	280	-	5,817
Revaluation increases/(decreases) recognised in the Revaluation Reserve	4,994	938	56	43	-	-	-	6,031
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	17,538	74	-	-	-	-	-	17,612
De-recognition – disposals	-	(597)	-	-	-	-	-	(597)
Assets reclassified (to)/from Held for Sale	(894)	-	-	-	-	-	(750)	(1,644)
Other reclassifications	739	(122)	-	-	-	(1,367)	750	-
Other movements in cost or valuation	(6,191)	(116)	(121)	-	-	-	-	(6,428)
At 31 March 2016	**145,459**	**15,131**	**5,341**	**26,222**	**3,461**	**289**	**259**	**196,162**
Depreciation and Impairment								
At 1 April 2015	-	(650)	(3,138)	(13,066)	-	-	-	(16,854)
Depreciation charge for the year	(3,670)	(326)	(513)	(1,273)	-	-	-	(5,782)
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(2,521)	-	-	-	-	-	-	(2,521)
Other movements in depreciation and impairment	6,191	116	121	-	-	-	-	6,428
At 31 March 2016	**-**	**(860)**	**(3,530)**	**(14,339)**	**-**	**-**	**-**	**(18,729)**
Balance Sheet amount at 31 March 2016	**145,459**	**14,271**	**1,811**	**11,883**	**3,461**	**289**	**259**	**177,433**
Balance Sheet amount at 1 April 2015	125,023	14,119	1,838	12,441	3,461	1,376	259	158,517

15. INVESTMENT PROPERTIES

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the CIES:

Investment Property	2015/16 £000s	2016/17 £000s
Rental income from investment property	(86)	(200)
Direct operating expenses arising from investment property	-	-
Net (gain)/loss	**(86)**	**(200)**

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

The following table summarises the movement in the fair value of investment properties over the year:

Fair Value Movement	2015/16 £000s	2016/17 £000s
Cost or Valuation		
At 1 April	1,424	6,753
Additions – acquisitions	5,269	1,106
Net gain from fair value adjustments	60	(28)
At 31 March	**6,753**	**7,831**

Sensitivity Analysis Fair Value Hierarchy for Investment Properties

Details of the authority's Investment Properties and information about the fair value hierarchy as at 31 March 2017 are as follows:

2016/17 Recurring fair value measurements using:	Other significant observable inputs (Level 2) £000s	Significant unobservable inputs (Level 3) £000s	Fair value at 31-Mar-17 £000s
Agricultural Land	5,467	-	5,467
Commercial Units	-	1,314	1,314
Commercial Land	1,050	-	1,050
	6,517	**1,314**	**7,831**

Valuation Techniques used to Determine Level 2 Fair Values for Investment Properties

Significant observable inputs – Level 2
The fair value for the agricultural land has 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 similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

Significant unobservable inputs - Level 3
The commercial units located in the local authority area are measured using the income approach, by means of the implicit (all-risk yield) capitalisation model.
The approach has been developed using the analysis and valuation of similar rented investment assets in the local area. It reflects rental growth, obsolescence and re-sale price as well as other factors including security of tenure and return on capital. Local market conditions for these assets show rental yields have been very stable over a number of years with very limited growth. The commercial units principally serve a local market however there is only a limited supply of such property. As such it is considered that there is no material risk of rents changing significantly from their current levels that may give rise to a change in carrying value of the assets.

The authority's commercial units are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements (and there is no reasonably available information that indicates that market participants would use different assumptions).

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

Valuation Techniques
There has been no change in the valuation techniques used during the year for Investment Properties.

Valuation Process for Investment Properties
The fair value of the authority's investment property is measured annually at each reporting date. All valuations are carried out by an externally appointed valuer and the work is undertaken in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

Investment Properties Categorised with Level 3	**31-Mar-17**
	£000s
Opening Balance	**1,286**
Total gains (or losses) for the period included in the Surplus or Deficit on the Provision of Services resulting from changes in fair value	28
Closing Balance	**1,314**

Gains or losses arising from changes in the fair value of the investment property are recognised in Surplus or Deficit on the Provision of Services – Financing and Investment Income and Expenditure line.

Quantitative information about Fair Value Measurement of Investment Properties using Significant Unobservable Inputs - Level 3

Subcategory at Fair Value Level	**31-Mar-17**	**Valuation technique used to measure fair value**	**Unobservable inputs**	**Estimated average**
	£000s			
Commercial Units	1,314	Implicit (all-risk yield) capitalisation model	Rental growth	2.50%
			Vacancy level	5%
			Discount Rate	8%

Significant changes in rent growth; vacancy levels or discount rate will result in a significantly lower or higher fair value. It is considered that the council's level 3 commercial units are, currently, not subject to significant changes to their fair value.

16. FINANCIAL INSTRUMENTS

(i) Financial Instruments - Classifications

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council.

The Council's non-derivative financial liabilities held during the year are measured at amortised cost and comprised:

- long-term loans from the Public Works Loan Board and lenders
- short-term loans from other local authorities
- trade payables for goods and services received

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Council during the year are held under the following classifications.

Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising:

- cash in hand
- bank current and deposit accounts with NatWest Bank
- fixed term deposits with banks and building societies
- loans to other local authorities
- loans to Kent County Council and East Kent Housing made for service purposes
- trade receivables for goods and services delivered

Available for sale financial assets (those that are quoted in an active market) comprising:

- CCLA Local Authority Property Fund (managed fund)

Unquoted equity investments held at cost because it is impracticable to determine fair value, comprising:

- equity investments in Oportunitas Limited, the Council's wholly owned regeneration and housing company

(ii) Financial Instruments - Balances

The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

Categories of financial Instruments	Long-term		Current		Note
	31-Mar-16	31-Mar-17	31-Mar-16	31-Mar-17	
	£000s	£000s	£000s	£000s	
Investments					
Loans and receivables	11,018	-	14,577	18,039	1
Available-for-Sale Financial Assets	5,269	6,929	75	4,598	
Unquoted Equity Investment at cost	229	479	-	-	
Total Investments	**16,516**	**7,408**	**14,652**	**22,637**	
Debtors					
Loans and receivables *	-	-	1,919	1,768	2
Other debtors	2,972	5,106	6,067	6,201	2
Total Debtors	**2,972**	**5,106**	**7,986**	**7,969**	
Cash & Cash Equivalents	-	-	1,229	4,368	
Total Cash & Cash Equivalents	**-**	**-**	**1,229**	**4,368**	
Creditors					
Trade Creditors at amortised cost	-	-	(2,557)	(2,380)	4
Financial liabilities at amortised cost	(59,447)	(57,755)	(731)	(1,813)	3
Financial liabilities carried at contract amounts	-	-	-	-	
Other Creditors	-	-	(4,471)	(4,881)	4
Total Creditors	**(59,447)**	**(57,755)**	**(7,759)**	**(9,074)**	
Soft Loans					
Soft Loans**	3,480	3,360	-	-	2
Total Soft Loans	**3,480**	**3,360**	**-**	**-**	

1. The total current (short-term) investments does not include any sums representing the short term position of long-term investments (2015 £0.094m).

2. The debtors line on the Balance Sheet includes £1.857m (2015 £1.388m) short-term debtors that do not meet the definition of a financial asset and £3.360m (2015 £3.480m) long-term debtors (i.e. being soft loans) that do not meet the definition of a financial asset.

3. The total short-term borrowing includes £1.813m (2015: £0.180m) representing the short-term portion of long-term borrowing.

4. The creditors lines on the Balance Sheet includes £3.946m (2015: £4.512m) short-term creditors that do not meet the definition of a financial liability.

Financial Instruments - Fair Values

Financial assets classified as available for sale and all derivative assets and liabilities are carried in the Balance Sheet at fair value, normally the market price. The Council holds shares in its wholly owned subsidiary company, Oportunitas Limited, which are carried at cost of £228,750 because their fair value cannot be measured reliably. This is because the company has no established trading history, having only been formed in 2014, and there are no similar companies whose shares are traded and which might provide comparable market data.

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31March 2017, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

Financial Liabilities	**Fair Value Level**	**Balance Sheet 31-Mar-16 £000s**	**Fair Value 31-Mar-16 £000s**	**Balance Sheet 31-Mar-17 £000s**	**Fair Value 31-Mar-17 £000s**
Long term Financial liabilities held at amortised cost:					
Long-term loans from PWLB	2	58,947	67,194	57,255	70,610
Other long-term loans	2	500	545	500	519
Total Long-term Liabilities		**59,447**	**67,739**	**57,755**	**71,129**
Short-Term					
Short-term creditors	n/a	7,028	7,028	7,261	7,261
Short-term borrowing	n/a	731	731	1,813	1,798
Total Short-Term Liabilities		**7,759**	**7,759**	**9,074**	**9,059**
Total Financial Liabilities		**67,206**	**75,498**	**66,829**	**80,188**

* The fair value of short-term financial liabilities including trade payables is assumed to approximate to the carrying amount.

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the authority's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

Financial Assets	Fair Value Level	Balance Sheet 31-Mar-16 £000s	Fair Value 31-Mar-16 £000s	Balance Sheet 31-Mar-17 £000s	Fair Value 31-Mar-17 £000s
Financial assets held at fair value:					
Bond, equity and property funds	1	5,269	5,269	11,528	11,528
Total assets held at fair value		**5,269**	**5,269**	**11,528**	**11,528**
Loans and Receivables held at amortised cost:					
Long-term deposits	2	11,018	11,096	-	-
Short-term deposits	n/a	14,652	14,652	18,039	18,125
Total loans and receivables held at amortised cost		**25,670**	**25,748**	**18,039**	**18,125**
Other Financial Assets:					
Long-term investments	n/a	229	229	479	479
Long-term debtors	n/a	2,972	2,972	5,113	5,113
Short-term debtors *	n/a	7,986	7,986	7,969	7,969
Cash and cash equivalents	n/a	1,229	1,229	4,368	4,368
Total Other Financial Assets		**12,416**	**12,416**	**17,929**	**17,929**
Total Financial Assets		**43,355**	**43,433**	**47,496**	**47,582**

* The fair value of short-term financial assets including trade receivables is assumed to approximate to the carrying amount.

** The 31 March 2016 values for Short Term Debtors was originally stated as £5.925m. This has been corrected to £7.986m with the addition of the values for loans and receivables (£1.919m) and other current debtors (£0.142m).

The fair value of financial assets held at amortised cost is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

Income, Expense, Gains and Losses 2016/17	Financial Liabilities measured at amortised cost £000s	Available for Sale Financial Assets £000s	Financial Assets and Loans Receivables £000s	Total £000s
Interest expense	**2,181**	**-**	**-**	**2,181**
(Gains)/Losses on derecognition Impairment losses	**-**	**-**	**-**	**-**
Total expense in Surplus or Deficit on the Provision of Services	**2,181**	**-**	**-**	**2,181**
Interest Income	**-**	**(381)**	**(468)**	**(849)**
Fee income	**-**	**-**	**(200)**	**(200)**
Total income in Surplus or Deficit on the Provision of Services	**-**	**(381)**	**(668)**	**(1,049)**
Net (gain)/loss for the year	**2,181**	**(381)**	**(668)**	**1,132**

Income, Expense, Gains and Losses 2015/16	Financial Liabilities measured at amortised cost £000s	Available for Sale Financial Assets £000s	Financial Assets and Loans Receivables £000s	Total £000s
Interest expense	2,224	-	-	2,224
(Gains)/Losses on derecognition Impairment losses	-	-	-	-
Total Expense in Surplus or Deficit on the Provision of Services	2,224	-	-	2,224
Interest Income	-	(279)	(507)	(786)
Fee Income	-	-	(86)	(86)
Total income in Surplus or Deficit on the Provision of Services	-	(279)	(593)	(872)
Net (gain)/loss for the year	2,224	(279)	(593)	1,352

17. SHORT TERM DEBTORS

The figures for short term debtors are shown net of provision for impairment of £1.4m at 31 March 2017.

Short Term Debtors	2016 £000s	2017 £000s
Central Government bodies	3,148	3,874
Other local authorities	317	539
Other entities and individuals	5,768	5,410
Balance as at 31 March	**9,233**	**9,823**

18. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents	2016 £000s	2017 £000s
Bank Accounts	390	**(483)**
Money Market Funds	839	**4,851**
Total	**1,229**	**4,368**

19. ASSETS HELD FOR SALE

Assets Held for Sale	2016		2017	
	Current	Non-current	Current	Non-current
	£000s	£000s	£000s	£000s
Balance at 1 April	48	-	795	-
Assets newly classified for sale:				
Property, Plant and Equipment	1,644	-	-	-
Revaluation gains	106	-	23	-
Assets sold	(1,003)	-	(818)	-
Balance as at 31 March	**795**	**-**	**-**	**-**

20. SHORT TERM CREDITORS

Short Term Creditors	2016	2017
	£000s	£000s
Central Government bodies	2,215	**2,308**
Other local authorities	4,182	**3,461**
Other entities and individuals	5,143	**5,439**
Balance as at 31 March	**11,540**	**11,208**

21. PROVISIONS

Provisions	Balance 01-Apr-16	Provisions made	Amounts Used	Balance 31-Mar-17	Short term liability	Long term Liability
	£000s	£000s	£000s	£000s	£000s	£000s
MMI Scheme of Arrangement	(76)	-	9	**(67)**	-	(67)
Business rate appeals	(1,278)	(373)	369	**(1,282)**	(1,282)	**-**
Re-structure	(158)	-	158	**-**	-	**-**
	(1,512)	**(373)**	**536**	**(1,349)**	**(1,282)**	**(67)**

MMI scheme of arrangement. Municipal Mutual Insurance (MMI) went into administration in the early 1990's. The Council is a scheme creditor and is contractually obliged to make a contribution should there not be a solvent 'run off' of MMI. A decision by the Supreme Court in March 2012 determined that liabilities in respect of certain asbestos claims would fall on the insurer at the time of the employees' exposure. This decision now affects MMI's ability to arrive at a solvent 'run off'. It appears likely that the call on the Council's contribution will be required and an initial levy rate of 15% was set. The levy continues to remain subject to change in future.

Business rates appeals – with the introduction of the Retained Business Rates system from 1 April 2013, local authorities are required to allow for the cost of outstanding valuation appeals that remain unsettled as at the end of the financial year. The estimate is based on previous years' appeals success experience.

The Communities Restructure Provision was utilised during the year.

22. USABLE RESERVES

Movements in the Council's usable reserves are detailed in the MIRS, page 17 and Notes 9 and 10 on pages 40-43.

23. UNUSABLE RESERVES

Unusable Reserves	2015/16	2016/17
	£000s	£000s
Revaluation Reserve	(10,550)	(20,835)
Available for Sale Reserve	(269)	(187)
Capital Adjustment Account	(116,532)	(125,165)
Financial Instruments Adjustment Account	434	276
Deferred Capital Receipts reserve	(163)	(157)
Collection Fund Adjustment Account	(537)	(340)
Pensions Reserve	60,452	74,516
Accumulated Absences Account	266	316
	(66,899)	**(71,576)**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. 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
- disposed of and the gains are realised

Revaluation Reserve	2015/16		2016/17	
	£000s	£000s	£000s	£000s
Balance at 1 April		**(4,700)**		**(10,550)**
Revaluation of assets and impairment (gains) / losses not charged to the Surplus / Deficit on the Provision of Services		(6,031)		(11,081)
Difference between fair value depreciation and historic cost depreciation	165		271	
Revaluation balances on assets sold or scrapped	16		525	
Amount written off to the Capital Adjustment Account		181		796
Balance as at 31 March		**(10,550)**		**(20,835)**

The Revaluation 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.

Available for Sale Reserve

Available For Sale Reserve	2015/16		2016/17	
	£000s	£000s	£000s	£000s
Balance at 1 April		**(128)**		**(269)**
Fair value (gain)/loss on value on CCLA LA Property Fund	(141)		82	
Fair value (gain)/loss on value on investments available for sale	-	(141)	-	82
Balance as at 31 March		**(269)**		**(187)**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis).

The Account is credited with the amounts set aside by the Council as finance for 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.

Capital Adjustment Account	**2015/16**		**2016/17**	
	£000s	**£000s**	**£000s**	**£000s**
Balance at 1 April		**(100,906)**		**(116,532)**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement				
Charges for depreciation and impairment of non-current assets	8,303		8,714	
Revaluation (gains)/losses on Property, Plant and Equipment	(17,718)		(6,168)	
Amortisation of intangible assets	87		88	
Revenue expenditure funded from capital under statute	752		1,329	
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	1,600		1,833	
Capital debtors written down	78		338	
		(6,898)		**6,134**
Adjusting amounts written out of the Revaluation Reserve		(181)		(796)
Net written out amount of the cost of non-current assets consumed in the year		**(7,079)**		**5,338**
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	(1,671)		(2,632)	
Use of the Major Repairs Reserve to finance new capital expenditure	(2,561)		(2,473)	
Capital grants and contributions credited to the CIES that have been applied to capital financing	(1,020)		(3,896)	
Application of grants to capital financing from the capital Grants Unapplied Account	(252)		(234)	
Statutory provision for the financing of capital investment charged against the General fund and HRA balances	(514)		(405)	
Capital expenditure charged against the General Fund and HRA balances	(2,469)		(4,359)	
		(8,487)		**(13,999)**
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		**(60)**		**28**
Balance as at 31 March		**(116,532)**		**(125,165)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

Financial Instruments Adjustment Account	2015/16		2016/17	
	£000s	£000s	£000s	£000s
Balance at 1 April		**570**		**434**
Repaid renovation advances	(12)		(38)	
Amortised interest on renovation advances	(148)		(144)	
Net write down deferred discounts to revenue	24	(136)	24	(158)
Balance as at 31 March		**434**		**276**

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

Deferred Capital Receipts Reserve	2015/16		2016/17	
	£000s	£000s	£000s	£000s
Balance at 1 April		**(168)**		**(163)**
Transfer of deferred sale proceeds in respect of finance leases where the Council is lessor	5		6	
Gain on sale of assets	-	5		6
Balance as at 31 March		**(163)**		**(157)**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the CIES as it falls due from council tax and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

Collection Fund Adjustment Account	2015/16	2016/17
	£000s	£000s
Balance at 1 April	**(958)**	**(537)**
Amount by which Council Tax and Non-Domestic Rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	421	197
Balance as at 31 March	**(537)**	**(340)**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pay 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.

Pensions Reserve	**2015/16**	**2016/17**
	£000s	**£000s**
Balance at 1 April	**66,493**	**60,452**
Remeasurement of net defined liability	(8,225)	12,286
Reversal of items relating to retirement benefits debited or credited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	4,949	4,745
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,765)	(2,967)
Balance as at 31 March	**60,452**	**74,516**

Accumulated Absences Account

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

Accumulated Absences Account	**2015/16**		**2016/17**	
	£000s	**£000s**	**£000s**	**£000s**
Balance at 1 April		**306**		**266**
Settlement or cancellation of accrual made at the end of the preceding year	(306)		(266)	
Amounts accrued at the end of the current year	266		316	
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		**(40)**		**50**
Balance as at 31 March		**266**		**316**

24. RECONCILIATION OF NET CASH FLOW FROM OPERATING ACTIVITIES

Reconciliation of Net Cash Flow From Operating Activities	2015/16 £000s	2016/17 £000s
Net Surplus or (Deficit) on the provision of services	17,112	**10,683**
Non-cash movements		
Depreciation and impairment	(9,414)	**2,546**
Amortisation	87	**88**
Soft loans	-	**24**
Change in creditors	(1,127)	**64**
Change in debtors	(1,331)	**(1,325)**
Change in inventories	1	**-**
Movement in pension liability	2,184	**1,778**
Movement in investment property values	1,600	**-**
		1,833
Other	242	**(555)**
	(7,758)	**4,453**
Investing or financing activities		
Capital grants credited to the surplus or deficit on the provision of services	(1,581)	**(4,886)**
Proceeds from the sale of property, plant and equipment	(1,365)	**(2,896)**
	(2,946)	**(7,782)**
Net cash flow from operating activities	**6,408**	**7,354**

25. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

Cash Flow Statement - Operating Activities	2015/16 £000s	2016/17 £000s
Interest received	(648)	**871**
Interest paid	2,245	**(2,223)**
Dividends received	-	**(67)**

26. CASH FLOW STATEMENT – INVESTING ACTIVITIES

Cash Flow Statement - Investing Activities	2015/16 £000s	2016/17 £000s
Purchase of property, plant & equipment	(10,922)	(11,219)
Purchase of investments	(37,731)	(24,005)
Other payments for investing activities	(1,094)	(2,177)
Proceeds from sale of property, plant & equipment	1,371	2,901
Proceeds from investments	30,505	25,002
Other receipts from investing activities	1,532	5,949
Net Cash Flow from Investing Activities	**(16,339)**	**(3,549)**

27. CASH FLOW STATEMENT – FINANCING ACTIVITIES

Cash Flow Statement - Financing Activities	2015/16 £000s	2016/17 £000s
Cash receipts from borrowing	-	**-**
Cash payments to reduce finance lease liabilities	-	**-**
Repayments of short term borrowing	(2,262)	**(607)**
Other payments from financing activities	(32)	**(59)**
Net cash flow from financing activities	**(2,294)**	**(666)**

28. AGENCY SERVICES – ON STREET PARKING

The Council operates, under an agency agreement with Kent County Council, On Street Parking Services. Income and expenditure are as follows:

Agency Services - On Street Parking	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s
Income	(499)	(516)	(557)	(670)
Expenditure	**668**	664	639	**632**
Deficit /(surplus)	**169**	**148**	**82**	**(38)**

Under Section 55 of the Road Traffic Regulations Act 1984 (as amended) if the council realises a surplus on on-street charges and on and off street enforcement this must be used for one or more of the purposes set out in that section. Any surplus for the financial year 2016/17 will be used to make good to the general fund of any amount charged to that fund in relation to parking in the preceding four years.

29. MEMBERS' ALLOWANCES

The following amounts were paid to Members of the Council during the year.

Members Allowances	2015/16 £000s	2016/17 £000s
Allowances	312	**309**
Expenses	12	**16**
Total	**324**	**325**

30. OFFICERS' REMUNERATION

The remuneration paid to the authority's senior employees is as follows:

2016/17 Post Holder	Salary, including fees and allowances	Compensation for loss of office	Total Remuneration, excluding pension contributions	Employer Pension Contributions	Total Remuneration, including pension contributions
	£	£	£	£	£
Chief Executive*	128,444	-	128,444	14,894	143,338
Corporate Director, Strategic Operations	100,984	-	100,984	11,552	112,536
Corporate Director, Strategic Development	100,984	-	100,984	11,552	112,536
Section 151 Officer/Corporate Director, Organisational Change	100,984	-	100,984	11,552	112,536
Head of Democratic Services and Law	65,555	-	65,555	7,481	73,036
	496,951	**-**	**496,951**	**57,031**	**553,982**

* Chief Executive salary includes £3,848 in respect of Returning officer fees.

2015/16 Post Holder	Salary, including fees and allowances	Compensation for loss of office	Total Remuneration, excluding pension contributions	Employer Pension Contributions	Total Remuneration, including pension contributions
	£	£	£	£	£
Chief Executive* Alistair Stewart	134,492	-	134,492	15,632	150,124
Corporate Director, Strategic Operations	94,424	-	94,424	10,709	105,133
Corporate Director, Strategic Development	96,156	-	96,156	10,917	107,073
Corporate Director, Organisational Change**	50,842	-	50,842	5,456	56,298
Chief Finance Officer***	76,354	27,627	103,981	8,798	112,779
Head of Democratic Services and Law	58,917	-	58,917	6,674	65,591
	511,185	**27,627**	**538,812**	**58,186**	**596,998**

*Chief Executive salary includes £6,896 in respect of Returning Officer fees.
**Corporate Director, Organisational Change commenced employment 1 October 2015. Annualised salary is equivalent to £89,448.
***Chief Finance Officer – commenced employment as Chief Finance Officer on 1 August 2015, ceased employment 31 March 2016.

The authority's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts

Number of Employees 2015/16	Remuneration Band £	Number of Employees 2016/17
10	50,000 to 54,999	**10**
7	55,000 to 59,999	**2**
2	60,000 to 64,999	**-**
2	65,000 to 69,999	**6**
1	70,000 to 74,999	**2**
1	80,000 to 84,999	**-**
1	85,000 to 89,999	**-**
1	90,000 to 94,999	**-**
1	95,000 to 99,999	**-**
1	100,000 to 104,999	**3**
-	125,000 to 129,999	**1**
1	130,000 to 134,999	**-**

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments) £	Number of compulsory redundancies (a) 2015/16	Number of compulsory redundancies (a) 2016/17	Number of other departures agreed (b) 2015/16	Number of other departures agreed (b) 2016/17	Total number of exit packages by cost band (a+b) 2015/16	Total number of exit packages by cost band (a+b) 2016/17	Total cost of exit packages in each band 2015/16 £000s	Total cost of exit packages in each band 2016/17 £000s
0-20,000	-	**4**	8	**10**	8	**14**	63	**103**
20,001-40,000	-	**2**	3	**1**	3	**3**	81	**71**
40,001-60,000	-	**1**	3	**-**	3	**1**	148	**46**
60,001-100,000	-	**1**	2	**-**	2	**1**	159	**67**
Total	**-**	**8**	**16**	**11**	**16**	**19**	**451**	**287**
	Provision for potential exit packages arising from re-structuring						158	-
							609	**287**

The cost of exit packages is calculated in accordance with accounting standards and does not necessarily equal the actual payment to or on behalf of an individual.

31. EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors.

External Audit Fees	2015/16 £000s	2016/17 £000s
Fees payable with regard to external audit services carried out by the appointed auditor for the year	60	**61**
Refund of fees	(8)	**-**
Fees payable for the certification of grant claims and returns for the year	19	**11**
	71	**72**

32. GRANT INCOME

The Council credited the following grants, contributions and donations to the CIES in 2016/17:

Grant Income	2015/16 £000s	2016/17 £000s
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	2,753	1,736
Council Tax Freeze Grant	99	-
Business rates reliefs	876	706
Non-service related grants	242	1,614
New Homes Bonus Grant	1,603	1,950
Capital Grants and Contributions	920	3,985
	6,493	**9,991**
Credited to Services		
REFCUS related Grants	624	881
KCC sundry grants	1,677	1,697
Council Tax Reduction Scheme grants	157	168
DWP – benefits subsidy	42,649	29,975
- rentrebate Subsidy		9,871
- benefits administration	552	466
Other grants and contributions	727	377
	46,386	**43,435**

33. RELATED PARTY TRANSACTIONS

The Council is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Council or to 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.

The UK Government exerts significant influence 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. housing benefits).

Details of transactions with government departments are set out in note 32 above.
Members of the Council have direct control over the Council's financial and operating policies. The total of members allowances paid in 2016/17 is set out in note 29 (page 61). Members are required to observe the Code of Conduct for councillors, register financial interests in the Council's Register maintained under section 81(1) of the Local Government Act 2000 and register the receipt of any gifts/hospitality over £25.

Officers are required to observe the Code of Conduct for Officers and register the receipt of any gifts/hospitality. The Council had no material related party transactions with officers during 2016/17, other than those disclosed in note 30 (page 62).

The Council is Corporate Trustee of the Folkestone Parks and Pleasure Grounds Charity. It is responsible for providing the majority of the Charity's funding by financing its net cost. The Corporate Trustee duties of the Council are carried out by its executive councillors. The Charity's management and support and grounds maintenance is carried out by the Council officers. Further details of the Trust and the Council's contribution are set out in note 39 (page 74).

The Council is joint owner of East Kent Housing Limited. an arms-length management organisation, owning 25% of the company. 2011/12 was the first year of operation. Payment of £1.973m was made in 2016/17 to East Kent Housing Limited in respect of management fees and the Council received £181k from East Kent Housing Limited in respect of services supplied to it. Balances due to/from East Kent Housing Limited at 31 March 2017 are £0.0m and £0.001m respectively.

The Council wholly owns Oportunitas Limited, a company that commenced trading in 2014/15. Group financial statements, consolidating the results of the company with those of the Council, have been prepared and are set out from page 88 onwards.

Amounts due to or from those other parties able to control or influence the Council or to be controlled/ influenced by the Council are as follows:

Related Parties	2015/16	2016/17
	£000s	£000s
Amounts due to Central Government	2,215	2,308
Amount due to Kent County Council	2,175	1,382
Amounts due from Central Government	2,303	3,165
Amounts due from Kent County Council	100	90
Amount due from Oportunitas Limited	1,354	3,347
Amount due to Folkestone Parks Charity	237	237
Amount due from Folkestone Parks Charity	4	4

34. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources that have been used to finance it.

Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

Capital Expenditure and Financing	2015/16 £000s	2016/17 £000s
Opening Capital Financing Requirement	60,413	65,168
Capital Investment		
Property, Plant and Equipment	5,818	9,819
Investment Properties	5,269	1,106
Intangible assets	79	19
Loans to and equity in subsidiary	721	2,169
Other loans	602	258
Revenue expenditure funded from capital under statute	752	1,329
Sources of Finance		
Capital Receipts	(1,670)	(2,632)
Government grants and other contributions	(1,272)	(3,896)
Sums set aside from revenue:		
Direct Revenue Contributions	(5,030)	(7,066)
Revenue provision for debt repayment	(514)	(405)
Closing Capital Financing Requirement	65,168	65,869
Increase in underlying need to borrow (unsupported by Government financial assistance)	5,269	1,106
Revenue provision for debt repayment	(514)	(405)
Increase / (decrease) in Capital Financing Requirement	4,755	701

35. IMPAIRMENT LOSSES

Disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the (Surplus) or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure are consolidated in note 14 page 44, reconciling the movement during the year in the Property, Plant and Equipment.

During 2016/17 the Council has recognised an impairment of Council dwellings amounting to £3.660m (£2.521m in 2015/16), which has been charged to the Housing Revenue Account. This comprises capital expenditure on the dwellings stock not adding value to the asset base.

36. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

As part of the terms and conditions of employment, the Council offers retirement benefits. Although these benefits will not be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement. The Council participates in the Local Government Pension Scheme, administered locally by Kent County Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

The Kent County Council Superannuation Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Superannuation Committee of Kent County Council. Policy is determined in accordance with the Public Service Pensions Act 2013. Day to day fund administration is undertaken by a team within Kent County Council and where appropriate some functions are delegated to the Fund’s professional advisers.

Kent County Council, in consultation with the Fund Actuary and other relevant parties, is responsible for the preparation and maintenance of the Fund Strategy Statement and the Statement of Investment Principles.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. In addition, there is an “orphan liability risk” where employers leave the Fund but with insufficient assets to cover their pension obligations. These are mitigated to an extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required as described in the accounting policies note.

Transactions Relating to Retirement Benefits

The Council recognises the cost of retirement benefits in the (Surplus) or Deficit on the Provision of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the amount payable in the year, so the real cost of retirement benefits is reversed out in the Movement in Reserves Statement. The following transactions have been made in the CIES and MIRS during the year.

Statement of Financial Position as at 31st March 2017

Net Pension assets as at	**31 March 2016 £000s**	**31 March 2017 £000s**
Present Value of the defined obligation	134,066	161,623
Fair Value of the Fund Assets	(73,614)	(87,107)
Net defined benefit liability / (asset)	**60,452**	**74,516**

Statement of Profit and Loss for the year to 31 March 2017

The amounts recognised in the profit and loss statement are:-	**Year to 31 March 2016 £000s**	**Year to 31 March 2017 £000s**
Service Cost	2,747	2,569
Net interest on the defined liability (asset)	2,151	2,129
Administration expenses	51	47
Total Loss / (profit)	**4,949**	**4,745**

Reconciliation of opening and closing balances of the present value of the defined benefit obligation.	**Year to 31 March 2016 £000s**	**Year to 31 March 2017 £000s**
Opening defined benefit obligation	140,763	134,066
Current service cost	2,665	2,357
Interest cost	4,579	4,759
Change in financial assumptions	(9,874)	30,928
Change in demographic assumptions	-	(2,999)
Experience loss (gain) on defined benefit obligation	-	(3,584)
Estimated benefits paid net of transfers in	(4,752)	(4,722)
Past service costs, including curtailment	82	212
Contribution by scheme participants and other employers	603	606
	134,066	**161,623**

Reconciliation of the opening and closing balances of the fair values of Fund Assets	Year to 31 March 2,016 £000s	Year to 31 March 2,017 £000s
Opening fair value of scheme assets	74,270	73,614
Interest on assets	2,428	2,630
Return on assets, less interest	(1,629)	12,641
Actuarial gains / (losses)	-	(582)
Administration Expenses	(51)	(47)
Contributions from employer including unfunded	2,745	2,967
Contributions by scheme participants	603	606
Estimated benefits paid plus unfunded net of transfers	(4,752)	(4,722)
	73,614	**87,107**

Remeasurement of net assets /(defined liability)	Year to 31 March 2016 £000s	Year to 31 March 2017 £000s
Return on fund assets in excess of interest	(1,629)	12,641
Other actuarial gains / (losses) on assets	-	(582)
Change in financial assumptions	9,874	(30,928)
Change in demographic assumptions	-	2,999
Experience loss (gain) on defined benefit obligation	-	3,584
	8,245	**(12,286)**

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels etc. The County Council pension scheme has been assessed by Barnett Waddingham, an independent firm of actuaries. Estimates for the Fund are based on the latest full valuation of the scheme as at 31 March 2016.
The significant assumptions used by the actuary have been:

Statistical assumptions	2015/16	2016/17
Mortality assumption		
Longevity at 65 for current pensioners		
-men	22.9yrs	23.0 yrs
-women	25.3yrs	25.0 yrs
Longevity at 65 for future pensioners		
-men	25.2yrs	25.1yrs
-women	27.7yrs	27.4yrs
Rate of inflation - CPI	2.30%	2.70%
Rate of inflation - RPI	3.20%	3.60%
Rate of increase in salaries	4.10%	4.20%
Rate of increase in pensions	2.30%	2.70%
Rate for discounting scheme liabilities	3.60%	2.70%
Take up of option to convert annual pension into retirement Lump Sum	50%	50%

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 remain constant.

The assumptions 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 inter-related. The assumptions in the sensitivity analysis have followed the accounting policies for the scheme i.e. on an actuarial basis using the projected unit credit method.

Sensitivity Analysis	**£000s**	**£000s**	**£000s**
Adjustment to Discounted rate	0.10%	0.00%	-0.10%
Present value of total obligation	158,852	161,623	164,445
Projected Service Cost	3,427	3,515	3,606
Adjustment to Long term Salary increments	0.10%	0.00%	-0.10%
Present value of total obligation	161,978	161,623	161,271
Projected Service Cost	3,515	3,515	3,515
Adjustment to Pension increases aaaand deferred valuations	0.10%	0.00%	-0.10%
Present value of total obligation	164,088	161,623	159,207
Projected Service Cost	3,606	3,515	3,427
Adjustment to Life expectancy assumptions	+1yr	None	-1yr
Present value of total obligation	167,841	161,623	155,642
Projected Service Cost	3,627	3,515	3,406

Asset and Liability Matching Strategy

Kent Pension fund has agreed to a Fund Strategy Statement that matches the type of assets invested to the liabilities in the defined benefit obligation. The Fund has matched assets to the obligations by investing in equities, corporate bonds and fixed interest Government securities/gilts. This is balanced with a need to maintain the liquidity of the Fund to ensure that it is able to make current payments. As it is required by the pensions and where relevant investment regulations the suitability of various types of investment have been considered, as has the need to diversify investments to reduce the risk of being invested in too narrow a range. A large proportion of the assets relate to equities (71% of scheme assets) and bonds (11%). The scheme also invests in properties as part of the diversification of the scheme's investments and comprises 12% of the total portfolio. The Pension Fund Strategy's main objectives are to maintain a funding level of 100%, as assessed by the Actuary and to stabilise the Employer rate as far as is practicable. The Funding Strategy Statement is monitored on a regular basis.

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions 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 on 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 may not provide benefits in relation to service after 31 March 2014. 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.

Projection for the year to 31 March 2018	Year to 31 March 2018 £000s
Service cost	3,515
Net Interest and defined liability / (asset)	1,974
Administration Expenses	56
Total loss / (profit)	**5,545**
Employer Contributions	**2,832**

The weighted average duration of the defined benefit obligation for scheme members is 18 years 2016/17 (18 years 2015/16).

37. CONTINGENT LIABILITIES

The Council is a joint owner of East Kent Housing Limited, a company limited by guarantee. The Council has entered into an agreement with East Kent Housing Limited 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 Limited's pension liability has increased from £7.3m to £10.2m at 31st March 2017. The company remains able to meet its current pension obligations and will not be making calls on the four owner Councils towards its pension liability.

Revised future contribution rates will not be set until 2017/18, meaning that the company should be able to meet its pension obligations at least up to that point. The impact of any increase to its future contribution rate will have to be assessed within the context of the negotiation of future management fees.

38. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Key Risks

The Council's activities expose it to a variety of financial risks, the key risks are:

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

Overall Procedures for Managing Risk

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. The procedures for risk management are set out through a legal framework set out in the *Local Government Act 2003* and the associated regulations.

These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- By formally adopting the requirements of the Code of Practice.
- By the adoption of a Treasury Policy Statement and treasury management clauses within its financial procedures rules and constitution.
- By approving annually in advance prudential indicators for the following three years limiting:
  - The Council's overall borrowing.
  - Its maximum and minimum exposures to fixed and variable rates.
  - Its maximum and minimum for exposures to the maturity structure of its debt.
  - Its maximum annual exposures to investments maturing beyond a year.
- By approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

These are required to be reported and approved at or before the Council's annual council tax setting budget or before the start of the year to which they relate. These items are reported with the annual Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported at least annually to Members, as is a mid-year update.

The annual Treasury Management Strategy, which incorporates the prudential Indicators, was approved by Full Council on the 22 February 2017 and is available on the Council's website.

Risk management is carried out by a central treasury team 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 exposures to the Council's customers.

The risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with Fitch, Moody's and Standard and Poor's Rating Services. The Annual Investment Strategy also considers maximum amounts and time limits with a financial institution located within each category. He Annual investment Strategy for 2016/17 was approved by Full Council on 18 February 2016 as part of the Treasury Management Strategy.

The Chief Finance Officer can also apply additional selection criteria to further restrict the investment counterparties available to the Council and/or the maximum duration of investments.

The table below summarises the credit risk exposure of the Council's investment portfolio by credit rating:

	Long Term		Short Term	
	31-Mar-16	31-Mar-17	31-Mar-16	31-Mar-17
	£000s	£000s	£000s	£000s
AAA	-	-	836	4,850
AA	-	-	-	-
A	-	-	7,500	11,513
Baa	-	1,739	-	-
UK Part-Nationalised Banks	3,002	-	2,001	3,002
Unrated local authorities (UK Sovereign Rating)	8,000	-	5,000	8,000
Unrated pooled funds	5,269	5,187	-	-
	16,271	**6,926**	**15,337**	**27,365**

The Council uses a pooled property fund that offers enhanced returns over the longer term but are potentially more volatile over the shorter term. These allow the Council to diversify into an asset class other than cash without the need to own and manage the underlying investments. Because this fund has no defined maturity date, but is available for withdrawal after a notice period, their performance and continued stability in meeting the Council's investment objectives will be monitored regularly.

Whilst the crisis in international markets over recent years has raised the overall possibility of default, the Council maintains strict credit criteria for investment counterparties.

No breaches of the Council’s counterparty criteria occurred during the reporting period and no losses are expected from non-performance by any of its counterparties in relation to treasury management investments.

The Council generally does not allow credit for customers

The level of provision has been reviewed in light of current economic conditions and is judged to be adequate after recognising the current aged profile of the debt.

Liquidity 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 it is needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, 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.

The investment sums owing to the Council and held as financial assets and due to be paid are as follows.

Financial Assets	2015/16	2016/17
	£000s	£000s
Less than one year	14,500	22,515
Between one and two years	11,002	1,740
More than two years	5,269	5,187
	30,771	**29,442**

All trade and other payables are due to be paid in less than one year.

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters.

This includes:

- Monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- Monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows, with monetary values below are measured at nominal amounts.

Time to maturity	31-Mar-16	31-Mar-17
	£000s	£000s
Less than 1 year	607	1,692
1 to 2 years	1,692	1,900
2 to 5 years	4,300	3,700
5 to 10 years	18,300	21,000
10 to 20 years	22,014	18,014
20 to 30 years	6,141	6,141
30 to 40 years	7,000	7,000
Total	**60,054**	**59,447**

Market Risk

Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council depending on how variable and fixed rates move across differing financial instrument periods. For example, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the CIES will rise.
- Borrowings at fixed rates – the fair value of the Council's liabilities would fall Investments at variable rates – the interest income credited to the CIES would rise.
- Investments at fixed rates – the fair value of the assets would fall

Investments classed as "loans and receivables" and loans borrowed are not carried at fair value, so changes in their fair value have no impact on the CIES. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or deficit on the Provision of services. Movements in the fair value of fixed rate investments classed as "available for sale" will be reflected in Other comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	£000s
Increase in interest payable on variable rate borrowings	10
Increase in interest receivable on variable rate investments	-178
Impact on Comprehensive Income and Expenditure	-168
Decrease in fair value of loans and receivables and bonds	-106
Decrease in fair value of fixed rate borrowings	-7,513

The most significant effect of a 1% increase in interest rates on the financial instruments carried at amortised cost would be on the fair value of PWLB debt. However, this will have no impact on either the Balance Sheet or the CIES.

Price Risk

The Council does not currently invest in equity shares or marketable bonds. The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. The risk is limited by the Council's maximum exposure to property investments of £5m (nominal investment). A 5% fall in commercial property prices would result in a charge of approximately £0.26m to Other Comprehensive Income and Expenditure however this would have no impact on the General Fund until the investment was sold.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

39. TRUST FUNDS

The Council's Executive acts as sole trustee for the Folkestone Parks and Pleasure Grounds Charity. The net expenditure of the Charity is treated as special expenses to be charged upon the Folkestone area. The funds do not represent assets of the Council and have not been included in the balance sheet; however the Council does hold £0.237m of investments and a £4,000 overdraft on behalf of the charity.

Funds for which the Executive of the Council act as sole trustee:

	2016/17			
	Income	Expenditure	Assets	Liabilities
	£000s	£000s	£000s	£000s
Folkestone Parks and Pleasure Grounds Charity	(567)	567	3,835	(2,550)

The Council has used Section 35 of the Local Government Finance Act 1992 to apply a Special Expenses Rate, to recover the cost of its contribution to the charity, thus only residents of the former Borough of Folkestone are asked to contribute via their council tax bill.

The special expenses of £489,000 have been included under Cultural and Related Services, Environmental and Regulatory Services and Planning Services in the CIES (2015/16 £448,000).

Income to the Charity therefore includes a contribution of £489,000 from the Council (£528,000 in 2015/16). The remainder of the charity's income is derived from charges for services, grants and investment income.

The Charity is required to produce an Annual Report and Account that sets out in detail its activities for that year. Copies of these can be obtained by contacting the Chief Executive, Civic Centre, Castle Hill Avenue, Folkestone, Kent CT20 2QY.

40. SECTION 106 RECEIPTS AND PLANNING CONDITION CONTRIBUTIONS

Section 106 receipts and planning condition contributions are monies paid to the Council by developers as a result of the grant of planning permission where works are required to be carried out or new facilities are provided as a result of that permission. In summary, the movement during the year is shown below:

Opening Balance 1 April 2016	New contributions	Amounts Applied	Closing Balance 31 March 2017
£000s	£000s	£000s	£000s
(1,444)	(965)	409	**(2,000)**

The balances at 31 March 2017 are held within the following areas of the balance sheet:

	2015/16	2016/17
	£000s	£000s
Current liabilities:		
Short term creditors – Depositors	(299)	**(608)**
Capital grants received in advance – current	(299)	**(102)**
Reserves:		
Capital grants unapplied reserve	(846)	**(1,290)**
	(1,444)	**(2,000)**

41. INTERESTS IN COMPANIES AND OTHER ENTITIES

East Kent Housing Limited

The Council, together with Canterbury City Council, Dover District Council and Thanet District Council jointly owns East Kent Housing Limited, 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 therefore the Group Financial Statements do not include the results of East Kent Housing.

The financial results of the Company for 2016/17 and the Council's share are as follows:

	2015/16 £000s East Kent Housing Limited	2015/16 £000s Shepway DC share (25%)	2016/17 £000s East Kent Housing Limited	2016/17 £000s Shepway DC share (25%)
Turnover	(8,760)	(2,190)	(8,653)	(2,163)
Expenses	9,687	2,422	9,526	2,381
Operational loss	**927**	**232**	**873**	**218**

	2015/16 £000s East Kent Housing Limited	2015/16 £000s Shepway DC share (25%)	2016/17 £000s East Kent Housing Limited	2016/17 £000s Shepway DC share (25%)
Loss after taxation	1,213	303	1,163	291
Other comprehensive (income) and expenditure	(1,855)	(464)	1,927	482
Total comprehensive (income) and expenditure	**(642)**	**(161)**	**3,090**	**773**
Balance Sheet				
Non-current assets	348	87	658	165
Current assets	1,699	425	964	241
Current liabilities	(893)	(223)	(778)	(195)
Non-current liabilities	(7,984)	(1,996)	(10,706)	(2,677)
Profit and loss reserve	(386)	(97)	(313)	(78)
Pensions reserve	7,330	1,833	10,175	2,544

The Council's investment in the company is nominal.

Note 33 Related Party Transactions sets out the transactions that took place between the Council and East Kent Housing Limited over 2016/17. Note 37 Contingent Liabilities describes the guarantee the Council has entered into with East Kent Housing Limited over certain pension obligations.

Oportunitas Limited

The Council wholly owns Oportunitas Limited, a company set up for housing and regeneration purposes. The results of the company have been consolidated with those of the Council and are shown within the Group Financial Statements commencing on page 87.

The Council holds 100 shares in the company at a cost of £0.479m and has loans outstanding of £3.35m from it.

Company turnover was £0.148m (£0.091m 2015/16). Oportunitas made a loss on ordinary activities of £0.070m in 2016/17 (loss of £0.066m in 2015/16). Its holdings in investment property was £2.35m at 31/3/2017 (£1.4m 31/3/2016).

42. RESTATEMENT OF ACCOUNTS - WORKING PAPERS

Note to Restated 2015/16 Consolidated Income and Expenditure Statement

Analysis as per Management Reporting

Analysis as per SeRCOP

	Original 2015/16	Leadership Support	Communications	Democratic Services and Law	Human Resources	Finance	Communities	Strategic Development Projects	Economic Development	Planning	Commercial and Technical	Local Authority Housing (HRA)	Local Authority Housing (HRA) - exceptional item	Restated 2015-16
Central Services to the Public	2,576	73		535	-98	1,433	633							2,576
Cultural and Related Services	3,490	22		1,024			493				1,951			3,490
Environmental and Regulatory Services	5,996		-1	2,289	193		2,164				1,351			5,996
Planning Services	3,196	9		22			106	416	1,418	1,043	182			3,196
Highways and Transport Services	-59										-59			-59
Local Authority Housing (HRA)	-988											-988		-988
Local Authority Housing (HRA) - exceptional item	-19,391												-19,391	-19,391
Other Housing Services	1,533					254	1,260				19			1,533
Corporate and Democratic Core	1,262	49		877	19	317								1,262
Non-distributed Costs	8							8						8
(Surplus)/Deficit on Continuing Operations	**-2,377**	**153**	**-1**	**4,747**	**114**	**2,004**	**4,656**	**424**	**1,418**	**1,043**	**3,444**	**-988**	**-19,391**	**-2,377**

HOUSING REVENUE ACCOUNT

2015/16 £000s		2016/17 £000s
	Income	
(14,921)	Dwelling Rents (Gross)	**(14,821)**
(339)	Non dwelling rents (Gross)	**(353)**
(942)	Charges for services and facilities	**(946)**
(50)	Contributions towards expenditure	**(50)**
(16,252)		**(16,170)**
	Expenditure	
2,935	Repairs and maintenance	**2,841**
4,049	Supervision and management	**3,796**
15	Rents, rates, taxes and other charges	**22**
8,168	Depreciation and impairment of non-current assets (Note 6)	**6,588**
(19,391)	Exceptional item – valuation gain (Note 10)	**(6,158)**
30	Debt management costs	**25**
67	Increase in bad debt provision (Note 7)	**44**
(4,127)		**7,158**
(20,379)	**Net Surplus of HRA Services as included in the whole authority CIES**	**(9,012)**
187	HRA services share of Corporate and Democratic Core	**222**
(20,192)	**Net surplus of HRA services**	**(8,790)**
(363)	(Gain)/loss on sale of HRA non-current assets	**(733)**
1,753	Interest payable and similar charges	**1,738**
(93)	Interest and investment income	**(100)**
77	Net interest on the net defined liability (Note 9)	**77**
(18,818)	**Surplus for the year on HRA Services**	**(7,808)**

Movement on the Housing Revenue Account Statement

2015/16 £000s		2016/17 £000s
(18,818)	Surplus on the HRA Income and Expenditure Statement	**(7,808)**
(24)	Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	**(25)**
15,119	Difference between any other items of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements (Note 8)	**3,553**
363	Gain or (loss) on sale of HRA non-current assets	**657**
1,823	Capital expenditure funded by the HRA	**2,169**
(75)	HRA share of contributions to or from the Pensions Reserve (Note 9)	**(62)**
(1,612)	**Net (increase) or decrease before transfers to or from Reserves**	**(1,516)**
-	Transfer from the Major Repairs Reserve	**-**
(1,612)	**(Increase) or Decrease in year on the HRA**	**(1,516)**
(4,252)	Balance on the HRA at the end of the previous reporting period	**(5,864)**
(1,612)	(Increase) or Decrease in year on the HRA (as shown above)	**(1,516)**
(5,864)	**Balance on the HRA at the end of the current reporting period**	**(7,380)**

1. HOUSING ASSETS

At 31 March 2017, the Council was responsible for managing 3,359 units of accommodation (excluding shared ownership properties).

The stock was made up as follows:

Houses and bungalows: 1,904
Flats and Bedsits: 1,455

The change in the stock can be summarised as follows:

Stock	2015/16	2016/17
Stock at 1 April	3,374	3,370
Acquisitions	11	10
New build	5	-
Sales	(20)	(21)
Change in use/conversions	-	-
Stock at 31 March	3,370	3,359

The Balance Sheet value was as follows:

	2015/16 £000s	2016/17 £000s
Dwellings	145,459	159,132
Other Land and Buildings	4,365	5,024
Infrastructure	1,054	1,113
Vehicles, Plant, Furniture and Equipment	326	260
Total Operational Assets	**151,204**	**165,529**
Assets under construction	**-**	969
Assets held for sale	45	-
Total Non Operational Assets	**45**	**969**
Total Assets	**151,249**	**166,498**

2. VACANT POSSESSION VALUE

The vacant possession value of dwellings within the HRA as at the 1 April 2016 was £454,559,539. Except for recent purchases and works made during the year, where the valuation reflects existing use, the Balance Sheet figure has been reduced to 33% to show existing use value as social housing, reflecting the economic cost of providing council housing at less than open market rents.

3. MAJOR REPAIRS RESERVE

	2015/16 £000s	2016/17 £000s
Balance on Major Repairs Reserve as at 1 April	(1,058)	(2,397)
The amount transferred to the Major Repairs Reserve during the financial year		
Depreciation and impairment of non-current assets	(3,900)	(3,907)
The amount transferred from the Major Repairs Reserve during the financial year		
Adjustment to depreciation to equal Major Repairs Allowance	-	
Capital expenditure on land, houses and other property within the HRA	2,561	2,473
Balance on the Major Repairs Reserve as at 31 March	**(2,397)**	**(3,831)**

4. CAPITAL EXPENDITURE ON LAND, HOUSES AND OTHER PROPERTY WITHIN THE HRA

	2015/16 £000s	2016/17 £000s
Land	**-**	**-**
Houses	**4,453**	**5,392**
Other Property	**498**	**126**
	4,951	**5,518**

5. CAPITAL FINANCING

The capital expenditure detailed in Note 4 above was financed as follows:

	2015/16 £000s	2016/17 £000s
Capital receipts	568	876
Revenue	1,822	2,169
Major Repairs Reserve	2,561	2,473
	4,951	**5,518**

A summary of HRA capital receipts during the year is given below:

	2015/16 £000s	2016/17 £000s
Land	-	-
Houses and Flats	1,365	1,741
Mortgage repayments and repaid discounts	-	75
	1,365	**1,816**

6. DEPRECIATION, IMPAIRMENT & VALUATION ON NON CURRENT ASSETS

2015/16				2016/17		
Revaluation	Depreciation	Impairment		Revaluation	Depreciation	Impairment
£000s	£000s	£000s		£000s	£000s	£000s
-		-	Land	**-**		**-**
(17,538)	3,670	2,521	Dwellings	**(7,145)**	**3,664**	**3,660**
-	102	-	Other Land and Buildings	**-**	**110**	**-**
-	56	-	Infrastructure	**-**	**66**	**-**
-	73	-	Vehicles, Plant, Furniture and Equipment	**-**	**67**	**-**
(17,538)	**3,901**	**2,521**		**(7,145)**	**3,907**	**3,660**

Impairment is in respect of capital expenditure not adding value to the asset base.
The revaluation gain is a reversal of previous revaluation losses recognised through the net cost of HRA services.

Additionally in 2016/17 £10.763m was posted to the Revaluation Reserve (£5.596m 2015/16) in respect of valuation gains and is disclosed in Other Comprehensive Income and Expenditure.

7. RENT ARREARS

	31-Mar-16	31-Mar-17
	£000s	£000s
Gross rent arrears	168	256
Current tenant arrears (excluding former tenants)	99	211
Provision for doubtful debts	67	44

Gross rent arrears include income related to properties leased by the Council to assist with providing services to prevent homelessness. Income relating to this service is credited to the General Fund. In respect of these leased properties the sums outstanding at 31 March 2017 are £2k for former tenants.

8. DIFFERENCE BETWEEN ANY OTHER ITEMS OF INCOME AND EXPENDITURE

	2015/16	2016/17
	£000s	£000s
Provision for debt repayment	-	-
HRA impairment-capital expenditure not adding value	(2,521)	(3,660)
Net valuation changes	17,644	7,244
Other changes	(4)	-
	15,119	**3,584**

9. HOUSING REVENUE ACCOUNT PENSION COSTS

The following transactions have been made in the HRA Income and Expenditure Statement and Movement on the Housing Revenue Account Statement during the year in respect of pensions.

2015/16 £000s		2016/17 £000s
97	Current Service Cost	87
77	Net interest on net defined liability	77
174	Net charge to the HRA Income and Expenditure Statement	**164**
(75)	HRA share of contributions to or from the pensions reserve in the Movement on the HRA Statement	(62)
99		**102**
99	Employer Contributions	102
99	Actual amounts charged against the HRA balance for pensions during the year	**102**

10. EXCEPTIONAL ITEM – VALUATION GAIN

Three valuation issues affecting council dwellings have required an exceptional item of a net £6.158m credit to be recognised in the CIES and is summarised in the table below:

Issue	Description	£000s
i)	Increase in the statutory social housing factor adjustment from 1 April 2016 for council dwellings values from 32% to 33%, compared to the open market value, resulting in the reversal of a previous valuation losschared to the CIES.	(2,025)
ii)	Valuation adjustment for council dwellings acquired during 2016/17 to reflect the statutory social housing factor of 33% compared to their open market value.	1,000
iii)	On the advice of the council's external valuer, the council's dwelling value has increased by a further 6.5% over the year in line with regional property valuation changes. Again, a valuation gain has been taken reversing previous losses.	(5,133)
		(6,158)

11. ITEM 8 CREDIT AND ITEM 8 DEBIT (GENERAL) DETERMINATION

The capital asset charges accounting adjustments calculated in accordance with the Regulations were as follows.

The Item 8 debit was calculated by multiplying the average HRA capital financing requirement by the consolidated rate of interest on the Council’s borrowing for the year and amounted to £1.738m (£1.753mk 2015/16).

The Item 8 credit was calculated by multiplying the average HRA balances for the year by the consolidated rate of interest on the Council’s investments and amounted to £0.092m (£0.085m 2015/16).

COLLECTION FUND

2015/16 Council Tax £0	2015/16 Business Rates £0	2015/16 Total £0		2016/17 Council Tax £0	2016/17 Business Rates £0	2016/17 Total £0
			Amounts required by statute to be credited to the Collection Fund			
(58,975)	-	(58,975)	Council Tax (note 1)	(62,082)		(62,082)
83	-	83	Council Tax benefit	35		35
-	(27,042)	(27,042)	Business Rates income (note 2)		(28,821)	(28,821)
-	(252)	(252)	Business Rates transitional protection		66	66
(58,892)	(27,294)	(86,186)	And then moving down to Final	(62,047)	(28,755)	(90,802)
			Amounts required by statute to be debited to the Collection Fund			
			Council tax precepts and demands:			
38,661	-	38,661	Kent County Council	41,522		41,522
5,219	-	5,219	Kent Police and Crime Commissioner	5,573		5,573
2,506	-	2,506	Kent and Medway Fire and Rescue	2,637		2,637
10,113	-	10,113	Shepway District Council	10,839		10,839
2,142	-	2,142	Contribution towards previous year’s estimated Council Tax Collection	2,767		2,767
241	-	241	Council Tax bad debts written off	227		227
(74)	-	(74)	(Decrease)/Increase in provision for Council Tax bad debts	(67)		(67)
			Payment of Business Rates			
-	151	151	Cost of Business Rates collection		150	150
			Share of Business Rates income:			
-	13,579	13,579	Central Government (central share)		14,029	14,029
-	2,444	2,444	Kent County Council		2,525	2,525
-	272	272	Kent and Medway Fire and Rescue		281	281
-	-	-				
-	11,168	11,168	Shepway District Council		11,224	11,224
-	-	-	Surplus / Deficit distrbution		233	233
-	(2)	(2)	Business Rates reconciliation		-	-
-	-	-	Business Rates transitional protection			
-	312	312	Business Rates bad debts written off		136	136
-	(146)	(146)	Increase in provision for Business Rates bad debts		7	7
-	584	584	Increase in provision for Business Rates appeals		9	9
58,808	28,362	87,170		63,498	28,594	92,092
(84)	1,068	984	**(INCREASE)/DECREASE IN FUND BALANCE FOR THE YEAR**	1,451	(161)	1,290
(3,592)	(765)	(4,357)	(Surplus)/Deficit brought forward	(3,676)	303	(3,373)
(3,676)	303	(3,373)	(Surplus)/Deficit carried forward	(2,225)	142	(2,083)

1. COUNCIL TAX

The average council tax at Band D set by the preceptors was as follows:

2015/16 £.p		2016/17 £.p
1,089.99	Kent County Council	**1,133.55**
147.15	Kent Police Commissioner	**152.15**
70.65	Kent Fire and Rescue Service	**72.00**
241.22	Shepway District Council (including Special Expenses charged on Folkestone)	**246.02**
43.90	Town and Parish Councils	**49.88**
1,592.91		**1,653.60**

The amount of income generated in 2016/17 by each council tax band was as follows:

Band	Chargeable Dwellings £	Band D Equivalent £	Income £000s
A	3,842	2,561	**(4,235)**
B	8,400	6,534	**(10,805)**
C	10,842	9,637	**(15,936)**
D	6,489	6,489	**(10,730)**
E	4,238	5,180	**(8,566)**
F	2,383	3,442	**(5,692)**
G	1,699	2,832	**(4,683)**
H	65	130	**(215)**
	37,958	36,805	**(60,862)**
	Contributions from the Ministry of Defence in lieu of council tax		**(624)**
	In year adjustments		**(596)**
	Income collectable from council tax payers		**(62,082)**

The 2016/17 tax base approved by Council was 36,630. This figure was arrived at after allowing for contributions in lieu of council tax and provision for bad debts.

2. INCOME COLLECTABLE FROM BUSINESS RATE PAYERS

The Council collects non-domestic rates for its area based on local rateable values multiplied by a uniform national rating multiplier. The total amount, less certain reliefs and other deductions, is now shared between the Government (50%), Shepway District Council (40%), Kent County Council (9%) and Kent and Medway Fire and Rescue (1%).

THE COLLECTION FUND

2015/16 £000s		2016/17 £000s
74,459	Non domestic rateable value as at 31 March	**73,407**
48.0p	Non-domestic rate multiplier	**48.4p**
(35,740)	**NNDR income before allowances and other adjustments**	**(35,529)**
8,698	Allowances, reduced assessments and other adjustments, including small business rate relief supplement	**6,708**
(27,042)	**Income collectable from business rate payers**	**(28,821)**

The non-domestic rate multiplier for 2016/17 was 48.4p for qualifying properties of less than £18,000 rateable value and 49.7p for all others (2015/16 48.0p and 49.3p respectively).

GROUP ACCOUNTS
GROUP MOVEMENT IN RESERVES STATEMENT

	Note	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied Account	Total Usable reserves	Unusable Reserves	Total Authority Reserves	Council Share of subsidiary	Total Group reserves
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
2016/17											
Balance at 31 March 2016		**(16,738)**	**(5,864)**	**(6,392)**	**(2,397)**	**(1,056)**	**(32,447)**	**(66,899)**	**(99,346)**	**61**	**(99,285)**
Movement in reserves during 2016/17											
Total Comprehensive Income and Expenditure		(2,875)	(7,808)	-	-	-	**(10,683)**	1,288	**(9,395)**	10	**(9,385)**
Adjustments between accounting basis and funding basis under regulations (Note 9)		2,244	6,292	(381)	(1,434)	(756)	**5,965**	**(5,965)**	**-**	-	-
Increase or Decrease in 2016/17		**(631)**	**(1,516)**	**(381)**	**(1,434)**	**(756)**	**(4,718)**	**(4,677)**	**(9,395)**	**10**	**(9,385)**
Balance at 31st March 2017 carried forward		**(17,369)**	**(7,380)**	**(6,773)**	**(3,831)**	**(1,812)**	**(37,165)**	**(71,576)**	**(108,741)**	**71**	**(108,670)**
2015/16											
Balance at 31 March 2015		**(15,456)**	**(4,252)**	**(6,831)**	**(1,058)**	**(748)**	**(28,345)**	**(39,491)**	**(67,836)**	**46**	**(67,790)**
Movement in reserves during 2015/16											
Total comprehensive Income and Expenditure		1,705	(18,817)	-			**(17,112)**	(14,398)	**(31,510)**	15	**(31,495)**
Adjustments between accounting basis and funding basis under regulations (Note 9)		(2,987)	17,205	439	(1,339)	(308)	**13,010**	(13,010)	**-**	**-**	**-**
Increase or Decrease in 2015/16		**(1,282)**	**(1,612)**	**439**	**(1,339)**	**(308)**	**(4,102)**	**(27,408)**	**(31,510)**	**15**	**(31,495)**
Balance at 31st March 2016 carried forward		**(16,738)**	**(5,864)**	**(6,392)**	**(2,397)**	**(1,056)**	**(32,447)**	**(66,899)**	**(99,346)**	**61**	**(99,285)**

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2015/16 Restated				2016/17		
Gross Expenditure	Income	Net Expenditure		Gross Expenditure	Income	Net Expenditure
£000s	£000s	£000s		£000s	£000s	£000s
			Continuing Operations			
153	-	153	Leadership Support	1,039	(11)	1,028
533	(534)	(1)	Communications	280	(15)	265
6,800	(2,053)	4,747	Democratic Services and Law	7,644	(2,377)	5,267
628	(514)	114	Human Resources	1,362	(382)	980
46,893	(44,871)	2,022	Finance	46,212	(42,632)	3,580
6,564	(1,908)	4,656	Communities	5,094	(2,264)	2,830
500	(76)	424	Strategic Development Projects	1,519	(553)	966
1,513	(95)	1,418	Economic Development	620	(63)	557
1,656	(613)	1,043	Planning	1,366	(552)	814
6,866	(3,422)	3,444	Commercial and Technical	8,169	(4,893)	3,277
15,264	(16,252)	(988)	Local Authority Housing (HRA)	7,707	(10,340)	(2,633)
(19,391)	-	(19,391)	Local Authority Housing (HRA) - exceptional item	(6,158)		(6,158)
67,979	**(70,338)**	**(2,359)**	**(Surplus)/Deficit on Continuing Operations**	**74,854**	**(64,080)**	**10,774**
3,729	(1,298)	2,431	Other operating expenditure	2,486	(1,062)	1,424
6,788	(2,649)	4,139	Financing and investment income and expenditure	5,854	(2,796)	3,058
6,488	(27,745)	(21,257)	Taxation and non-specific grant income	6,610	(32,539)	(25,929)
84,984	**(102,030)**	**(17,046)**	**(Surplus) or Deficit on Provision of Services**	**89,804**	**(100,477)**	**(10,673)**
		(6,082)	(Surplus) or deficit on revaluation of non-current assets			(11,081)
		(142)	(Surplus) or deficit on revaluation of Available for Sale assets			82
		(8,225)	Re-measurement of net defined liability			12,286
		(14,449)	**Other Comprehensive Income and Expenditure**			**1,288**
		(31,495)	**TOTAL Comprehensive Income and Expenditure**			**(9,385)**

GROUP BALANCE SHEET

2015/16		Note	2016/17
£000s			£000s
	Non current assets		
31,964	Property, plant and equipment		**35,618**
145,459	Council dwellings		**159,132**
6,753	Investment property		**10,182**
254	Intangible assets		**185**
16,517	Long term investments	1	**6,935**
6,452	Long term debtors		**5,335**
207,399	**Long term assets**		**217,387**
14,652	Short term investments		**22,637**
795	Assets held for sale		**-**
9	Inventories		**9**
9,106	Short term debtors		**9,690**
1,315	Cash and cash equivalents		**5,702**
25,877	**Current assets**		**38,038**
(731)	Short term borrowing		**(1,813)**
(11,550)	Short term creditors		**(11,226)**
(299)	Current provisions		**(1,281)**
(1,445)	Grants receipts in advance - capital		**(97)**
(14,025)	**Current liabilities**		**(14,417)**
(59,447)	Long term borrowing		**(57,755)**
(67)	Non-current provisions		**(67)**
-	Capital grants receipts in advance		**-**
(60,452)	Other long term liabilities		**(74,516)**
(119,966)	**Long term liabilities**		**(132,338)**
99,285	**Net assets**		**108,670**
(32,323)	Usable reserves		**(37,094)**
(66,962)	Unusable reserves		**(71,576)**
(99,285)	**Total Reserves**		**(108,670)**

2015/16 £000s	GROUP CASH FLOW STATEMENT	2016/17 £000s
17,046	Net surplus or (deficit) on the provision of services	10,673
(7,689)	Adjustment to net surplus or (deficit) on the provision of services for for non-cash movements	4,841
(2,946)	Adjustment for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities	(7,782)
6,411	**Net cash flow from operating activities**	**7,732**
(16,339)	**Net cash flow from Investing activities**	(2,679)
(2,294)	**Net cash flow from Financing activities**	(666)
(12,222)	**Net increase/decrease in cash and cash equivalents**	**4,387**
13,537	Cash and cash equivalents at period beginning	1,315
1,315	**Cash and cash equivalents at end of period**	**5,702**

Explanation of Group Financial Statements

Group MIRS. This statement shows the movement in the year on the different reserves held by the Council and its subsidiary Oportunitas Limited, 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 Group CIES. This is different from the statutory amounts required to be charged to the General Fund balance for council tax setting. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund balance before any discretionary transfers to or from earmarked reserves.

Group CIES

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Group MIRS. The statement shows the consolidated position of the Council and incorporates its subsidiary, Oportunitas Limited.

Group Balance Sheet

The Group Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve, where amounts would only become available to provide services if the assets were sold); and reserves that hold timing differences shown in the Group MIRS line 'Adjustments between accounting basis and funding basis under regulations'. The Group Balance Sheet shows the consolidated position incorporating the Council's subsidiary Oportunitas Limited.

Group Cash Flow Statement

The Group Cash Flow Statement shows the changes in cash and cash equivalents of the Council and its subsidiary, Oportunitas Limited, 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 way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

Notes to the Group Financial Statements

For the Group Financial Statements, there are no material differences to the Council's own notes to the accounts (including its accounting policies) except that in respect of Investment Properties.

Note 1 – Investment Properties

The following table summarises the movement in the fair value of investment properties over the year:

	2015/16 £000's	2016/17 £000's
Cost or Valuation		
At 1 April	2,127	**8,183**
Additions – acquisitions	5,945	**1,970**
Disposals	-	**-**
Net gain from fair value adjustments	111	**29**
At 31 March	**8,183**	**10,182**

Sensitivity Analysis Fair Value Hierarchy for Investment Properties

Details of the authority's Investment Properties and information about the fair value hierarchy as at 31 March 2017 are as follows:

2016/17 Recurring fair value measurements using:	Other significant observable inputs	Significant unobservable inputs	Fair value at 31 March 2017
	(Level 2)	(Level 3)	
	£'000	£'000	£'000
Residential Units	2,351	-	2,351
Agricultural Land	5,467	-	5,467
Commercial Units	1,050	1,314	2,364
Total	**8,868**	**1,314**	**10,182**

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHEPWAY DISTRICT COUNCIL

We have audited the financial statements of Shepway District Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Authority Movement in Reserves Statements, the Group and Authority Comprehensive Income and Expenditure Statements, the Group and Authority Balance Sheets, the Group and Authority Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Organisational Change and auditor

As explained more fully in the Statement of Responsibilities, the Corporate Director of Organisational Change is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Organisational Change; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority and Group as at 31 March 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

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

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

Respective responsibilities of the Authority and auditor

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects **the Authority** put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Act in respect of 2015/16. We are satisfied that this matter does not have a material effect on the 2016/17 financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

[Signature]

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

Grant Thornton UK LLP

Finsbury Square

London EC2A 1AG

[Date]

ANNUAL GOVERNANCE STATEMENT 2016/17

1. SCOPE OF RESPONSIBILITY

1.1 Shepway District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

1.2 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and the management of risk.

1.3 The council has adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/ SOLACE framework “Delivering Good Governance in Local Government.” A copy of the code is on our website or a copy can be obtained from the council offices. This statement explains how the Council has complied with the code and also meets the requirements under the Accounts and Audit Regulations 2015 (SI 2015/184).

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

2.1 The governance framework comprises the systems and processes, culture and values, by which the Council is directed and controlled. It also comprises the activities through which the council accounts to, engages with and leads the community. The governance framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

- Identify and prioritise risks to the achievement of the Council’s aims and objectives.
- Evaluate the likelihood and impact of those risks.
- Manage those risks efficiently, effectively and economically.

2.3 The information provided in the governance framework includes matters to the year ending 31 March 2017, and up to the date of approval of the annual report and statement of accounts.

3 THE GOVERNANCE FRAMEWORK

3.1 The key systems and processes that comprise the Council's governance arrangements are set out in this section:

3.1.1 ***Arrangements for identifying and communicating the council's vision of its purpose and intended outcomes for citizens and service users:***

The council identifies and communicates its aims and ambitions for the district through its Corporate Plan. The most recent plan covers the period 2013 to 2018, and was agreed by both Cabinet and Council in February 2014. Service planning is also an integral part of the corporate planning process, linking the Council's strategic aspiration (Corporate Plan) to team performance (service plans) and individual performance (performance reviews), in order to effectively manage resources and deliver high quality services. All team members are asked to contribute to their team service plan. The Council's service plans were developed by each team manager alongside the budget setting process and provide the priorities, key outcomes and performance indicators that will be the focus for the coming year. These operational service plans consider the Corporate Plan objectives and all priorities must be fully financed and support the strategic objectives set out in the Corporate Plan.

The formal staff appraisal system (known as Personal Performance Reviews) establishes a "golden thread" from our strategic objectives, to the operational service plans, to individual action plans and performance management. The Corporate Plan and the achievement of the key targets (2016/17) will be reported to the Overview and Scrutiny Committee and Cabinet in June 2017. The service plans have been collated for 2017/18.

All the council's strategic risks are documented in the Corporate Risk register, which is reviewed and published 3 times a year. The corporate risks have been updated and due to be considered by Cabinet in June 2017.

The Equality Impact Assessments required will be identified out of the Service Plans that need to be carried out by each of service, in order to comply with our duties under the Equality Act 2010.

The Council has a statutory duty under the Civil Contingencies Act 2004 to put in place effective Business Continuity arrangements. Cabinet approved the council's corporate Business Continuity arrangements including the council's Corporate Business Continuity Policy and Corporate Business Continuity Plan in October 2014 (Report C/14/34). A review of how we undertake emergency planning and the co-ordination of responding took place in April 2017. This has strengthened resilience and also ensured a greater involvement of key teams and officers across the council in the support of delivering our duties.
The council's Business Continuity arrangements are due to be reviewed in 2017.

The council's vision is embedded into the culture of the organisation by the staff induction process, regular staff briefings by senior management and through communications on the staff Intranet.

3.1.2 ***Arrangements for reviewing the council's vision and its implications for the Council's governance arrangements:***

Development of Governance Reporting
In April 2016, CIPFA/SOLACE published Delivering Good Governance in Local Government: Framework, with CIPFA's previous published guidance being formally withdrawn and replaced by the new Framework and Guidance. The 2016 guidance, which applies to annual governance statements prepared for the financial year 2016/17 onwards, recommends the review of the effectiveness of the system of internal control that local authorities in England, Wales and Northern Ireland are required to undertake by their respective Accounts and Audit Regulations should be reported in an Annual Governance Statement (AGS). It should be noted that the Accounts and Audit Regulations 2015 (in England), the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 and the Local Authority Accounts (Scotland) Regulations 2014 require the review of the effectiveness of the system of internal control to be included in the AGS.

Annual Governance Statement
Comprehensive guidance on the preparation and format of Annual Governance Statements (AGSs) is contained in the 2016 Framework. However, paragraph 3.7.4.3 of the Code contains the following additional reminders for the preparation of the AGS that are not specified in the Framework:

- The AGS should relate to the governance system as it applied during the financial year for the accounts that it accompanies.
- Significant events or developments relating to the governance system that occur between the year-end and the date on which the Statement of Accounts is signed by the responsible financial officer should be reported.
- Where an authority undertakes significant activities through group relationships with other entities, the review of the effectiveness of internal control should include the group activities.

In England, Scotland and Northern Ireland, the relevant regulations require the AGS to be included with the Statement of Accounts (Annual Accounts in Scotland). However, as the AGS ranges much wider than the financial transactions of the authority, practitioners will usually decide that it would be appropriate to place it at either the beginning or the end of the published document. Otherwise, there is a risk that users of the accounts might conclude that the AGS is covered by the true and fair certification by the responsible financial officer and the external auditor.

In England, the Accounts and Audit Regulations 2015 require the AGS (whether or not it has been approved by members or a committee) to be published alongside the unaudited statement of accounts (see Regulation 15(2)(a)(ii)). The AGS must be approved and published alongside the audited financial statements by 30 September (Regulation 10).

3.1.3 ***Arrangements for measuring the quality of services for users, for ensuring they are delivered in accordance with the Council's objectives and for ensuring that they represent the best use of resources.***

The Performance Management Framework was adopted by the Council in July 2014. In 2016, the arrangements for reporting performance management were reviewed and feedback was sought from senior management and members regarding future approach and content of report. On the 24th February 2016, a report was approved by Cabinet adopting the new working practices.

From the 1st April 2016, quarterly performance reports were reinstated to ensure the information reported is relevant, timely and concise. The first quarterly report lists all of the Council's performance indicators that will be collected during the year and how they will be measured and monitored.

The Medium Term Financial Strategy (MTFS) ensures that the Council's plans are affordable and deliverable. It contains projections of the Council's financial position over the next five years and identifies ways to address any shortfall. The strategy is updated annually.

At a time of reducing resources, the Council is committed to delivering value for money, ensuring cost effectiveness in the services provided, making best use of our resources and assets, and focussing on those areas which will have a transformational effect for the people of Shepway and provide longer term sustainability for the council.

3.1.4 ***Arrangements for defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions with clear delegation arrangements and protocols for effective communication.***

Roles and responsibilities of Council, Cabinet, Overview and Scrutiny and all committees of the council, along with officer functions are defined and documented, with clear delegation arrangements within the Council's Constitution. The Constitution is kept under regular review to ensure best practice and good governance. Since the last major revision in 2013, the Council has made various minor changes to the Constitution to reflect both changes in legislation and changes in responsibilities of members of the executive. The latest review of the Constitution was carried out in 2016 following the merger and reduction in the number of committees. The new committee structure came into force in May 2016.

The Cabinet is the part of the Council that is responsible for most strategic decisions. In 2016/17, Cabinet comprised the leader and nine other councillors. All decisions to be discussed were published prior to the relevant meeting under the relevant publication regulations. The Overview & Scrutiny Committee identified any decisions they wished to contribute to, or comment on prior to the decision being taken.

All decisions (except those defined as exempt under Schedule 12A of the Local Government Act 1972) are discussed in meetings open to the public.

Cabinet makes decisions that are in line with the council's overall policies and budgets. Decisions outside the budget and policy framework must be referred to full Council.

3.1.5 ***Arrangements for developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff:***

Codes of conduct defining the standards of behaviour for members and officers have been developed and communicated through the induction process and are available on the council's intranet. These include:

- The Councillor Code of Conduct and Officer Code of Conduct
- The Anti-fraud and Corruption Strategy
- Planning and Licensing Codes of Conduct
- Protocols on Councillor / staff relationships
- Personal performance reviews linked to service and corporate objectives carried out
- The Council's Core Values

The councillors' and officers' codes of conduct, protocol on Councillor/staff relationship and the planning and licensing codes of conduct also form part of the council's Constitution.

The Council has an Audit and Governance Committee comprising of five councillors. The Council has also appointed an Independent Person in accordance with the 2011 Act.

The Monitoring Officer has dealt with one complaint under the Code in consultation with the Independent Person. The investigation into this is now complete. It was decided by the Monitoring Officer that no further action be taken on the complaint and a decision notice was issued accordingly.

The following training is compulsory for all staff, and is part of the induction process;

- Safeguarding/ Child Protection training
- Equality and Diversity Training
- Data Protection & Information Security
- Anti Bribery & Anti Corruption
- Health & Safety training on manual handling, fire safety, office health and safety and workstation assessments

3.1.6 ***Arrangements for reviewing and updating Standing Orders, Financial Procedure Rules, a Scheme of Delegation and supporting procedure notes/ manuals, which clearly define how decisions are taken and the processes and controls required to manage risk:***

The Council is required to ensure compliance with relevant laws and regulations, internal policies and procedures, and to ensure that expenditure is lawful.
The Council has therefore adopted a number of procedures, protocols and processes that underpin the delivery of its services and functions. These

protocols and procedures are kept under review and updated where necessary, in order to define how decisions are taken and the process and controls required to manage risks. The Financial Procedure Rules were fully reviewed as part of the review of the Constitution, adopted on 9th May 2016. During 2016/17, the Financial Procedure Rules were reviewed in response to a small number of internal audit recommendations relating to changed role titles and authorisation limits; the consequent amendments have been incorporated in an updated version and presented to the Audit and Governance Committee on the 8th March 2017 and the Council on 10th May 2017.

3.1.7 ***Arrangements for undertaking the core functions of an audit committee, as identified in CIPFA's "Audit Committee: Practical Guidance for Local Authorities."***

The Audit and Governance Committee receives regular reports from the East Kent Audit Partnership on their progress against the annual audit plan, which provides detail on the assurance levels which can be placed against the various systems and processes in place. The committee also considers an annual assessment at the end of the year provided by the Head of the East Kent Audit Partnership and reports from the external auditor. The committee will also:

- Review and approve the financial statements, external auditor's opinion and reports to members and monitor management action in response to the issues raised by external audit.
- Be satisfied that the authority's assurance statements, including the Annual Governance Statement properly reflect the risk environment and any actions required to improve it.
- Review summary internal audit reports and the main issues arising and seek assurance that action has been taken where necessary.
- Consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti fraud and anti corruption arrangements and seek assurance that action is being taken to mitigate those risks identified.

3.1.8 ***Arrangements for ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful:***

All reports to Cabinet are seen and commented on by the Council's legal and financial officers. The Financial Procedure Rules govern the approvals of expenditure and virement. An annual audit plan is agreed before the start of each financial year, which ensures coverage of key council operations. Additionally, the plan is based upon a formal risk assessment that seeks to ensure all areas of the Council's operations are reviewed within a four-year cycle of audits.

3.1.9 ***Arrangements for whistle–blowing and for receiving and investigating complaints from the public***

A Whistleblowing Protocol was approved by Corporate Management Team on 22 March 2016 as part of the Anti-fraud and Corruption Framework. The procedure is available to be used by the Council's staff and contractors. The procedure clearly sets out to whom concerns should be raised and provides assurance on how the person raising the concern will be treated. In addition an annual report on whistleblowing is presented to the Audit and Governance Committee. More recently, the existing Whistleblowing Policy has been updated following suggestions made by an Audit report.

The Council recognises the value of a robust system to deal with complaints. All feedback, both positive and negative is a useful tool to shape further improvements to service delivery. The Council has a two stage complaints process. At stage one, the complaint is investigated within the relevant service area. If the complainant is not satisfied with the outcome of stage one, the complaint is escalated to stage two and is investigated by an independent senior manager. If the complainant remains dissatisfied after stage 2, s/he can refer the complaint to the Local Government Ombudsman to investigate and conclude.

Responsibility for the corporate complaints function sits with the Head of Democratic Services and Law. Additional training for staff has been undertaken during the year.

During 2016/17, 240 official complaints were recorded by the council's Complaints Team (190 stage one, 39 stage two and 11 LGO). Of those to the Local Government Ombudsman, 9 were not upheld and 2 were upheld. Since 2016, the recording of Compliments and Complaints transferred over to the corporate system of Covalent for easier monitoring and performance Indicators.

3.1.10 ***Arrangements for identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training***

A comprehensive training programme was arranged for councillors following the May 2015 elections.

Subsequent to this Councillors training needs analysis meetings have taken place with group leaders to shape a relevant offer. Councillors have undertaken a variety of more tailored activities depending on their individual needs. These have included:

- Contact Centre: Listening in on calls in the Contact Centre.
- Benefits: Sitting in on benefits meetings
- Housing: Q&A session on specific questions Councillors had
- Licensing: Q&A session on specific questions Councillors had
- Planning: Q&A session on specific questions Councillors had and accompanying an officer on planning site visits
- Emergency Planning training (April 2017)

All Councillors were offered the opportunity to attend a "Keeping Yourself Safe" training course.

Councillors have 2 points of contact within the HR team in order for them to be able to request any individual training via the LGA or South East Employers.

Councillors have a specific page on the Learning Zone of the staff intranet. All training presentations are uploaded after each session has taken place to enable those who could not attend to view the materials.

A comprehensive and continuous training programme is ongoing which aims to develop senior managers, middle managers and team leaders; which includes sessions on effective performance management, employee engagement, project management and coaching skills. SDC is an Institute of Leadership and Management (ILM) Approved Centre which means we can teach and award ILM qualifications. We have put over 35 managers and aspiring managers through a Level 3 Award in Leadership and Management and have got several undertaking the Level 5 qualifications. There are also in-house 90 minute soft skills sessions on topics such as Emotional Intelligence and Building and Exhibiting Confidence available to all employees.

Heads of Service and Corporate Directors are also offered coaching and bespoke training courses provided by respected organisations such as Roffey Park Institute.

3.1.11 ***Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.***

In 2016, in consultation with ward members, Ward Plans, Ward Plan budgets and other community funding schemes were reviewed in order to improve the allocation, administration and effectiveness of Council expenditure to ensure better transparency, value for money, sustainability and more positive and targeted outcomes led by ward members in partnership with their communities.

As a result of the review it was agreed to:

- Discontinue Ward Profiles and Ward Plans with immediate effect.
- Increase individual ward member grants from £1,500 to £3,000 per member, per annum from 1 April 2017.
- Develop, deliver and commission against a Shepway profile, action plan and online community asset resource.
- Continue the Community Chest funding programme.
- Continue to provide existing Grant Agreements with the voluntary and community sector.

The overarching aim of the Shepway Profile and Action Plan supports local people to make positive choices that maintain or improve their role in the community.

An online district community database is currently being developed in partnership with the voluntary and community sector asset mapping community groups, clubs, village halls etc. to create better connected communities.

Individual Ward Member grants have been increased from £1,500 to £3,000 per member, per annum to give Members more control in supporting voluntary and community sector groups to deliver projects and activities in the locality for the benefit of the community. The availability of greater Ward Member grants has further enhanced the Council’s involvement with local communities and assist with the delivery of efficient and effective projects and services to ward areas.

The Council continues to support the voluntary and community sector through annual core funding grants and has strong consultation links with Shepway Voluntary and Community Sector Forum, Shepway Homelessness Forum, Local Children’s Partnership Group and Shepway Pensioners Forum.

The council developed a draft Parish Charter, which has been consulted on and approved by Cabinet on 25th May 2016. A number of town and parish councils have adopted the charter through their committees.

The Economic Development Strategy 2015-2020 sets out the councils ambitions for economic growth and outlines how the council will deliver its actions in the Corporate Plan that relate to building the local economy. The strategic priorities include building on our existing strengths, boosting productivity and supporting business growth. A key component of this is engagement with the local business community, which has continued to increase through a programme of regular one to one engagement with key employers in the district, and through the Shepway Business Advisory Board whose membership has continued to expand and where businesses provide important input in to shaping the district councils policies and activities. The Folkestone.works website, which has been developed to provide a resource for local businesses to access the support they need to grow and to attract inward investment into the district, continues to be developed and the number of visitors have risen.

The Government has introduced a Code of Transparency for Local Authorities. This increases further transparency of financial management, data and expenditure. Full details are available on the council’s website.

3.1.12 ***Arrangements for incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission’s report on the governance of partnerships and reflecting these in the Council’s overall governance arrangements.***

The Council has a partnership policy which sets out the Council's vision and scope for partnership working; providing clarity of the types of partnership the council is involved with and guidance to assist in making decisions regarding setting up or joining partnerships. All the council’s partnerships are recorded on the Partnerships Register.

Our key partnerships/alternative service delivery models are detailed below:

East Kent Housing Limited is an Arms length Management Company set up to manage the retained housing stock of four councils in East Kent. It is owned in equal share by, Canterbury Dover, Shepway and Thanet councils. It is governed by a board that includes representation from each of the councils as well as resident representatives and independent members and has a contractual relationship with each of the owner councils that sets out the nature of the relationships.

The **Shepway Community Safety Partnership** (CSP) is a statutory partnership and the council as a statutory partner plays a full and important role in its function / activity. Regular reporting to the Police Crime Commission (PCC) assures all financial spend is appropriately used. The role of partners in the CSP has been extended to oversee key multi–agency sub-groups that deliver activity for the CSP (covering safeguarding, health and wellbeing, gangs migration & new communities, clean, green, safe and reducing and preventing reoffending. The Overview & Scrutiny Committee has a statutory duty oversee elements of the work of the CSP.

On 16 July 2014, the Cabinet approved the formation of a housing and regeneration company – Oportunitas Limited– to;

- Assist the council in achieving its priorities for regeneration;
- To deliver more homes; a wider range of housing tenures and rental levels than currently delivered by the Council;
- To provide a delivery vehicle for profitable traded services.

Councillors make up the board of the company. Councillors who are also directors have been given dispensation to speak and vote on matters concerning the company at meetings of the Council / Committees or Cabinet. These dispensations will expire in June 2017 (time limited in line with the Constitution).

A total of £4.78m funding has been approved by the Council for investment by Oportunitas Limited and, to date, 29 homes and 1 commercial unit have been acquired and are under management. As planned when the company was established, a financial review of its long term sustainability is being undertaken. Grounds Maintenance expertise is currently offered as traded services through Oportunitas Limited and regular progress reports are given to Cabinet across all of the company's activities. In April 2016 internal audit undertook a review of the governance arrangements and gave a Substantial level of assurance. Not with standing awarding the highest level of assurance, twelve recommendations were made and a progress report which was completed in February 2017 found all twelve recommendations had been addressed to their satisfaction. The Board of Oportunitas and the Shareholder were kept informed during the audit and of the findings.

The council is a member of the Dover and Shepway Local Children's Partnership Group (which replaced the Children's Trust Boards) and South Kent Coast Health and Wellbeing Board (SKC HWBB).

The SKC HWBB is a sub-committee of the Kent Health and Wellbeing Board and it is, made up GPs, district and county councillors, senior local government officers and the voluntary and community sector. The aim of the board is to improve the quality of life, health and wellbeing, including mental wellbeing, for our residents. The board is currently reviewing its remit to encompass a range of commissioning functions as an integral part of its role. The council is also represented on the Integrated Executive Programme Board and related Integrated Care Organisation and its workstreams to look at care provision and role of prevention in future health care.

4. REVIEW OF EFFECTIVENESS

4.1 The Council has responsibility for conducting, at least annually, a review of effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the council who have responsibility for the development and maintenance of the governance environment, the Head of East Kent Audit Partnership's annual report and also by comments made by the external auditors and other review agencies and inspectorates.

4.2 The main role in maintaining and reviewing effectiveness is through the Audit and Governance Committee, which has responsibility to provide independent assurance on the adequacy of the risk management framework and the associated control environment. The committee provides independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk. It also oversees the financial reporting process and oversees the work of the East Kent Audit Partnership.

4.3 Other key roles are undertaken by:

Council
The Council is responsible for adopting the authority's Constitution, including codes of conduct and approving the budget and policy framework.

Cabinet
The Cabinet is responsible for discharging executive functions in accordance with the policy framework and budget, also for approving the authority's risk management policy statement and strategy, and for reviewing the effectiveness of risk management. It is also responsible for approving the anti – fraud and corruption framework. It receives quarterly performance updates to monitor achievement of key priorities, customer charter standards, performance indicators and spend against the planned budget.

The Overview and Scrutiny Committee
The committee is responsible for reviewing the work and decisions of the Cabinet, and all areas of the Council's work, as well as carrying out specific projects and investigations and considering matters or services provided by an outside organisation that could affect local residents. It can also exercise the power to call – in a decision of the cabinet or a cabinet member.

Audit and Governance Committee

The committee promotes and maintains high standards of conduct by councillors and co-opted members. It monitors the operation of the Councillors' Code of Conduct, advising, training or arranging to train councillors and co-opted members on matters relating to the Code where necessary. It also considers and recommends to council, when necessary, changes to the financial procedure rules and contract standing orders.

The Head of Paid Service (Chief Executive)
The 'Head of Paid Service' (Chief Executive) who has a duty to monitor and review the operations of the Constitution to ensure its aims and principles are given full effect. The Authority keeps the appropriateness of the Constitution under review.

Corporate Management Team
One of the purposes of CMT is to deliver the council's priorities. It receives reports on progress against corporate priorities and any issues which affect the Council. In addition, CMT:

- oversees management of non executive functions
- reviews overall budgets
- leads organisational development
- addresses staffing matters within the policies of the council
- co-ordinates the professional and technical advisors of the council
- advises the council on corporate direction & initiatives

The Chief Financial Officer
The authority conforms to the governance requirements of the CIPFA Statement on the role of the Chief Financial Officer in Local Government (Good Governance in Local Government: Guidance note for English authorities (2012)). The role of the Chief Financial Officer is a fundamental building block of good corporate governance. The two critical aspects of the role are stewardship and probity in the use of resources; and performance, extracting the most value from the use of those resources.

Head of Internal Audit
The authority conforms to the governance requirements of the CIPFA Statement on the role of the Head of Internal Audit in Local Government (Good Governance in Local Government: Guidance note for English authorities (2012)). The Head of Internal Audit in a public service organisation plays a critical role in delivering the organisation's strategic objectives by: championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.

Internal Audit
The Internal Audit function provides independent appraisal with direct access to members. It aims to provide management with a level of assurance on the adequacy of internal controls and of risks to the Council's functions and systems.

The internal audit function for the Council performed by the East Kent Audit Partnership (EKAP), which provides internal audit services to the councils of Canterbury, Dover and Thanet, as well as to Shepway. As a result of this collaborative approach the partnership is able to be robustly resourced and provides a mechanism for sharing best practice to the East Kent authorities that use its services.

External Audit
The external audit work of the Council is undertaken by Grant Thornton UK LLP The main duties are governed by section 15 of the Local Government Finance Act 1982, as amended by section 5 of the Audit Commission Act 1998.

The external auditors were appointed to the Council by the Audit Commission. They are required to conduct their audit work to the strictest standards as laid down by the audit code of practice, which ensures that they approach the work with the highest level of objectivity. Their independence is further reinforced by the restrictions put into place on the levels of non-audit work able to be purchased from external auditors. The external auditors provide a further area of assurance, which is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of the Council. They deliver two main pieces of work: they give their opinion on the audit of the Councils financial statement and they look at the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (value for money).

Annual assurance statements
Assurance statements assess the adequacy of governance arrangements. Each Head of Service and direct report to a Corporate Director provides assurance statements covering their service area. No significant concerns arose from the assurance statements.

Annual Audit Letter
Each year the Council receives a report from its external auditor on the quality of its financial and management administrative arrangements. This is considered both by Cabinet and the Audit and Governance Committee.

4.4 The Council has, by reports to the Audit and Governance Committee, been advised on the implications of the result of the review of the effectiveness of the governance framework and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

4.5 The overall opinion of the System of Internal Controls in operation throughout 2016/17 based on the work of the East Kent Audit Partnership during 2016/17 will be presented in their annual report to the Audit and Governance Committee in June.

- The internal auditors are independent to the management of the Council and have direct access to the Chair of the Audit and Governance if required. They provide a regular update to the Committee at each of the quarterly meetings, and attend any special meetings that may be convened during the year.

- As at 31 March 2017 the Internal Auditors completed 317 days of review equating to 95% of planned completion. The East Kent Audit Partnership (EKAP) undertake a regular schedule of follow up audits to ensure that management have implemented the action plans arising from each audit. Members can see full details within the Internal Audit Annual Report that will be presented to the Audit and Governance Committee in July 2017.

- The EKAP have met as a team and considered the Public Sector Internal Audit Standards Checklist for compliance. The results of this self-assessment showed that internal audit is currently working towards full compliance and has agreed an action plan to achieve this.

- As part of EKAP's quality monitoring arrangements Members should be aware that following the completion of each audit, a satisfaction questionnaire is completed by the managers of the service that has been audited enabling the officers involved to comment on the conduct and outcome of the audit. This information is used, in part, to inform the self assessment.

4.6 The 2015/16 Annual Audit Letter from Grant Thornton UK LLP summarised the following key messages:

- Overall the draft financial statements were of a good quality and received an unqualified audit opinion;
- There were no adjustments affecting the Council's reported financial position;
- Some minor disclosure and presentational changes were identified that were amended by management.
- An unqualified Value for Money conclusion was issued confirming that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016; and
- Certification of the pooling of housing capital receipts return by the due deadline without amendment or qualification, and confirmation that the Housing Benefits Subsidy return was certified by the auditor and submitted to Department of Work & Pensions by the deadline of 30 November 2016.

5. CERTIFICATION

5.1 Grant Thornton UK LLP, as the Council's auditors, is required to certify the claims submitted by the Council.

5.2 For 2015/16, two claims were certified relating to expenditure of £41.79 million. Both claims were submitted and certified by the required deadlines. Neither claim was qualified.

6. SIGNIFICANT GOVERNANCE ISSUES

6.1 Set out in Appendix 2 is the action plan to deal with outstanding governance issues.

6.2 The council proposes over the coming year to take steps to address the matters shown in the appendix to further enhance our governance arrangements. The council is satisfied that these steps will address the need for improvements that were identified in the review of effectiveness and will monitor their implementation and operation as part for the next annual review.

Signed

Cllr David Monk
Leader of the Council

Signed

Alistair Stewart
Chief Executive

Date: 7 September 2017

Appendix 1 - Review of the 2016/17 Action Plan for improvement following review of effectiveness of governance arrangements

		Who	Date	Update
1.	**Annual Review of Corporate Governance:**	Monitoring Officer	May 2017	

	At the end of the year, the Council will produce its statement on governance, which includes end of year assurance statements by Heads of Service and internal audit's opinion report.			Completed
2.	**Governance Arrangements:** Review the council's governance arrangements once the revised framework and guidance has been published by CIPFA / SOLACE.	Monitoring Officer	December 2015	Completed
3.	**Anti fraud and corruption:** Keep the anti fraud policy under review to ensure that it remains relevant and up to date.	Head of Finance	December 2016	The Anti-Money Laundering Policy has been reviewed during 2016/17 and the recommended changes to ensure that the policy remains up to date have been submitted to Members for approval.
4.	**Empowerment Strategy:** To work on an Empowerment Strategy for the council for officers, members, customers and our communities.	Leadership Support Manager	July 2015- January 2017	It has been agreed to defer the production of an empowerment strategy until further notice.
5.	**Ward Profiles and Ward Plans:** To undertake an evaluation of the ward profiles and plans and produce a recommendations report for consideration.	Head of Communities	July 2016	The review was completed in 2016, being presented to Cabinet in October. It was agreed to discontinue Ward Profiles and Ward Plans with immediate effect. However, recommendations were approved to increase individual ward member grants and develop a number of a Shepway community profile, action plan and online community resource.
6.	**Community Grants Framework:** To monitor the framework and update the grants register (to third parties) on a quarterly basis.	Corporate Contracts Manager	March 2017	Completed

7.	**New Delivery Models/ Partnerships:** Training to be arranged for senior managers and members on good governance arrangements for alternative service delivery models/ partnerships.	Head of Human Resources	January 2017	This action was temporarily put on hold whilst discussions around the potential of a new EK Council took place, once that direction is clear the appropriate interventions will be designed and delivered.
8.	**Review complaints policy** To review the complaints policy to cover all feedback.	Monitoring Officer	June 2016	Completed
9.	**Review Data retention policy** To review the data retention policy for the council.	Monitoring Officer	December 2016	Work in progress. To be reviewed in light of the new General Data Protection Regulations.

Appendix 2 - Action plan for improvement following review of effectiveness of governance arrangements (2017/18)

		Who	Date
1.	**Annual Review of Corporate Governance:** At the end of the year, the Council will produce its statement on governance, which includes end of year assurance statements by Heads of Service and internal audit's opinion report.	Monitoring Officer	May 2018
2.	**Governance Arrangements:** Review the council's governance arrangements once the revised framework and guidance has been published by CIPFA / SOLACE.	Monitoring Officer	March 2018
3.	**Anti fraud and corruption:** Keep the anti fraud policy under review to ensure that it remains relevant and up to date. Approval of the Anti-Money Laundering Policy by Members.	Head of Finance	June 2017
4.	**Shepway Health Inequalities Action Plan and online community resource:** Introduce an action plan outlining how the Council's services can address health inequalities in the district, together with a mapping exercise of community assets to form an online resource.	Head of Communities	September 2017
5.	**Community Grants Framework** To monitor the framework and update the grants register (to third parties) on a quarterly basis.	Corporate Contracts Manager	
6.	**New Delivery Models/ Partnerships** Training to be arranged for senior managers and members on good governance arrangements for alternative service delivery models/ partnerships.	Head of Human Resources	March 2018
7.	**Review Data retention policy and prepare the Council for the introduction of the new General Data Protection Policy** To review the data retention policy for the council.	Monitoring Officer	July 2018
8.	**Review of Corporate Risk Policy for the council.** To review the corporate risk policy for the council.	Leadership Support	December 2017

Abbreviations – The following abbreviations are used throughout this report:

CIES – Comprehensive Income and Expenditure Statement
MIRS – Movement in Reserves Statement

Accounts - A generic term for statements setting out details of income and expenditure or assets and liabilities or both in a structured manner. Accounts may be categorised by the type of transactions they record e.g. revenue accounts, capital accounts or by the purpose they serve e.g. management accounts, final accounts, balance sheets.

Actual - The final amount of expenditure or income which is recorded in the council's accounts.

Actuarial Gains and Losses – For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:
(a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses); or
(b) the actuarial assumptions have changed.

Assets – resources controlled by the authority as a result of past events and from which future economic benefits or service potential is expected to flow to the authority.

Balance Sheet - A statement of the recorded assets, liabilities and other balances at a specific date at the end of an accounting period.

Budget - A statement of the council's plans for net revenue and capital expenditure over a specified period of time.

Capital Expenditure –Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

Capital Receipts - Proceeds from the sale of fixed assets, repayments of grants or the realisation of certain investments. Capital receipts are available to finance other items of capital expenditure or to repay debt on assets originally financed from loan.

Central Services to the Public – this includes the costs of local tax collection, elections, emergency planning, local land charges and any general grants.

Collection Fund - The fund into which are paid amounts of council tax and non-domestic rates and from which are met demands by county and district councils and payments to the national non-domestic rates pool.

Community Assets - Assets that the council intends to hold in perpetuity, that have no determinable finite useful life, and in addition may have restrictions on their disposal, e.g. parks and cemetery land.

Corporate and Democratic Core – Comprises all activities which local authorities engage in because they are elected, multi purpose authorities. It includes the costs of the Head of the Paid Service, costs of treasury management and bank charges and the costs of democratic representation.

Council Tax - A local tax set by councils to help pay for local services. There is one bill per dwelling based on its relative value compared to others in the area. There are discounts, including where only one adult lives in the dwelling. Bills will also be reduced for properties with people on low incomes, for some people with disabilities and some other special cases.

Current Service Cost (Pensions) – The increase in the present value of a defined scheme's liabilities, expected to arise from employee service in the current period.

Deferred Credits - Income still to be received (or applied in the accounts) where deferred payments (or application) have been allowed. For example the principal outstanding from the sale of council houses (deferred capital receipts).

Depreciation - The measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period.

Events after the Balance Sheet date – those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

Exit Packages – can include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex gratia payments and other departure costs.

Fair Value – is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Finance Lease – a lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

General Fund (GF) - The main revenue fund of the council from which are made payments to provide services and into which receipts are paid, including the district council's share of council tax.

Heritage Assets – assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for its contribution to knowledge and culture.

Housing Revenue Account (HRA) - The statutory account to which are charged the annual revenue costs of providing, maintaining and managing council dwellings financed by rents, grants and other income.

Impairment – A reduction in the value of a fixed asset below its carrying amount on the balance sheet.

Infrastructure Assets - Inalienable assets, expenditure on which is only recoverable by continued use of the asset created, i.e. there is no prospect of sale or alternative use, e.g. coast protection works.

Investment Assets – those assets that are held solely to earn rentals or for capital appreciation or both.

Lease – An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

Liabilities – present obligations of an authority arising from past events, the settlement of which is expected to result in an outflow from the authority of resources embodying economic benefits or service potential.

Minimum Revenue Provision – A prudent annual provision has to be made for the repayment of debt in accordance with Capital Finance Regulations.

Net Book Value – The amount at which property, plant and equipment are included in the balance sheet i.e. their historical cost or fair value less the cumulative amounts provided for depreciation and impairment.

Net defined liability – also known as the net pension liability.

Net Service Expenditure - Comprises of all expenditure less all income, other than income from council tax and revenue support grant, in respect of a particular service.

Non Current Asset – Any asset which is not easily convertible to cash, or not expected to become cash within the next year.

Non-Domestic Rates - Businesses contribute to local government expenditure on the basis of a uniform rate, decided by the Government, levied on the rateable value of the business premises.

Non Distributed Costs – Overheads for which no user now benefits and should not be apportioned to services. Costs generally included under this heading are those arising from early retirement payments to the pension fund.

Non-specific Grant Income – grant that cannot be attributed to a specific revenue Service (e.g. New Homes Bonus).

Past Service Cost – The increase in the present value of the pension scheme liabilities, related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Precept - The demand on the collection fund by one authority (e.g. Kent County Council) which is collected from the council tax payer by another (e.g. Shepway). Precepts on Shepway are also made by town and parish councils in the district, which are charged to the General Fund.

Prior Period Adjustments – Those adjustments applicable to prior years arising from the correction of material errors.

Provisions - Amounts set aside for liabilities of uncertain timing or amount that have been incurred.

Public Works Loans Board - A government agency which provides longer term loans to the public sector at interest rates only slightly higher than those at which the government itself can borrow.

Remuneration – all sums paid to or receivable by an employee and sums due by way of expenses allowances and the money value of any other benefits received other than in cash (excludes employer pension contributions).

Reserves - The general capital and revenue balances of the council. There are two types of reserves which might be described as either available or not available to finance expenditure. Revenue reserves which result from monies being set aside or surpluses or delayed expenditure can be spent or earmarked at the discretion of the council (e.g. General Fund and Housing Revenue Account General Reserves). The capital receipts reserve is also available to the extent allowed for by statute. However, other capital reserves are not available to meet expenditure, e.g. the capital adjustment account.

Revenue Expenditure - The day-to-day running costs of services including salaries, running expenses and capital charges