# 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**

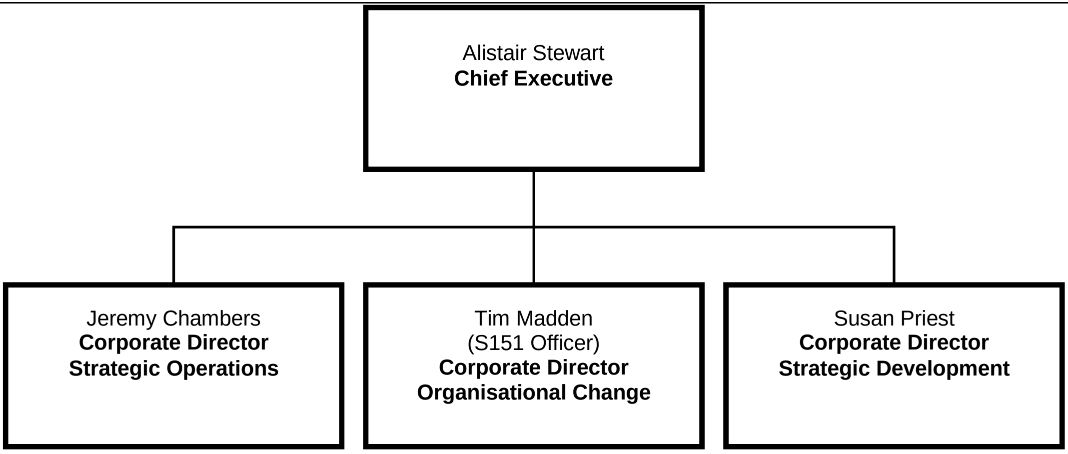
During 2016/17 the district councils of Canterbury, Dover, Shepway and Thanet explored a high level business case for the feasibility of the abolition of the local government district areas of Canterbury, Dover, Shepway and Thanet and the constitution of a new local government district area of East Kent. 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 | (80) |
| acquisitions | (75) |
| Gain on sale of HRA fixed assets | |
| 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

## 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

# FINANCIAL STATEMENTS
## 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

# FINANCIAL STATEMENTS
# 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.<br><br>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<br>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<br>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 | 2016/17 |
|---|---|---|
| | £000s | £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 | 2016/17 |
|---|---|---|
| | £000s | £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 | 2016/17 |
|---|---|---|
| | £000s | £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<br>2016/17 | Council Dwellings<br>£000s | Land and Buildings<br>£000s | Vehicles, Plant and Equipment<br>£000s | Infra-structure<br>£000s | Community Assets<br>£000s | Assets Under Construction<br>£000s | Surplus Assets<br>£000s | Total<br>£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 | Available for Sale Financial Assets | Financial Assets and Loans Receivables | Total |
|---|---|---|---|---|
| | £000s | £000s | £000s | £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 | 2017 |
|---|---|---|
| | £000s | £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 | 2017 |
|---|---|---|
| | £000s | £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 £000s | 2016/17 £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** | **2016/17** |
|---|---|---|
| | **£000s** | **£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** | **2016/17** |
|---|---|---|
| | **£000s** | **£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** | **2016/17** |
|---|---|---|
| | **£000s** | **£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) | | Number of other departures agreed (b) | | Total number of exit packages by cost band (a+b) | | Total cost of exit packages in each band | |
|---|---|---|---|---|---|---|---|---|
| £ | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 |
| | | | | | | | £000s | £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**<br>**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**<br>**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 £000s | 2016/17 £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 £000s | 31-Mar-17 £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 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Analysis as per Management Reporting | | | | | | | | | | | | |
| **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<br>£000s | 2016/17<br>£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<br>£000s | 2016/17<br>£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<br>£000s | 2016/17<br>£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<br>£000s | 2016/17<br>£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 | Business Rates £0 | Total £0 | | 2016/17 Council Tax £0 | Business Rates £0 | 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) |

# THE COLLECTION FUND

## 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<br>£000s | | 2016/17<br>£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 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 ACCOUNTS
# 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 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.

*Elizabeth Jackson*

Elizabeth Jackson

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

Grant Thornton UK LLP

Finsbury Square

London EC2A 1AG

7 September 2017

## 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.

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|---|---|
| Signed | Signed |
| Cllr David Monk<br>Leader of the Council | Alistair Stewart<br>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:** 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 2017 | 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:**<br>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:**<br>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:**<br>Keep the anti fraud policy under review to ensure that it remains relevant and up to date.<br>Approval of the Anti-Money Laundering Policy by Members. | Head of Finance | June 2017 |
| 4. | **Shepway Health Inequalities Action Plan and online community resource:**<br>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**<br>To monitor the framework and update the grants register (to third parties) on a quarterly basis. | Corporate Contracts Manager | |
| 6. | **New Delivery Models/ Partnerships**<br>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**<br>To review the data retention policy for the council. | Monitoring Officer | July 2018 |
| 8. | **Review of Corporate Risk Policy for the council.**<br>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