

# SHEPWAY DISTRICT COUNCIL

## STATEMENT OF ACCOUNTS 2014/15

**Folkestone**  
Hythe & Romney Marsh  
Shepway District Council



[www.shepway.gov.uk](http://www.shepway.gov.uk)

# STATEMENT OF ACCOUNTS

For the year ended 31 March 2015

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## **EXPLANATORY FOREWORD**

### **1. INTRODUCTION**

The purpose of this foreword is to offer an easily understandable guide to the most significant matters reported in the Accounts and provide an explanation in overall terms of the Authority's financial position and assist in the interpretation of the accounting statements for 2014/15.

The Statement of Accounts for the year ended 31 March 2015 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 (England) Regulations 2011.

The Accounts and Audit (England) Regulations 2011 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 foreword contains a guide to the most significant matters reported in the accounts that impact on the Authority's income and expenditure and cash flow, and information on the financial needs and resources of the Authority. Its purpose is also to assist in the interpretation of the Financial Statements.

### **2. Comprehensive Income and Expenditure Statement (CIES) – Page 31**

The CIES consolidates all the gains and losses experienced by the Authority 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.

### **3. The Balance Sheet – Page 32**

The Balance Sheet shows the value as at the Balance Sheet date (31<sup>st</sup> March 2015) of the Authority's assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. 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).

## **EXPLANATORY FOREWORD**

- The second category of reserves is those that the authority 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'.

### **4. The Movement in Reserves Statement (MIRS) – Page 33**

The Movement in Reserves Statement, shows the movement in the year on the different reserves held by the Authority, 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 Authority'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 Authority.

### **5. The Cash Flow Statement – Page 34**

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. It shows how the Authority 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 Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority'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 Authority.

### **6. Housing Revenue Account (HRA) – Page 103**

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.

### **7. Collection Fund Statement - Page 93**

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 Authority retaining a proportion of the collected non-domestic rates.

### 8. Group Accounts – Page 109

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 has established a subsidiary company during the 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 Ltd.

### FINANCIAL PERFORMANCE 2014/15

#### Overview

The Authority has consistently maintained a healthy reserves position and benefits from financial stability. This is reflected in the Authority's effective monitoring of financial performance and maintaining a balanced budget reflected in forward planning as outlined in the 5 year Medium Term Financial Strategy (MTFS) reported to Cabinet in November 2014. The MTFS has outlined its strategic objectives within the 5 year plan to support policies that generate additional funding. Those strategic objectives are aligned with the Authority's priorities and vision in the Corporate Plan 2013-2018 agreed at Council on 13 February 2014. To support the MTFS objectives, the Authority's main focus is to maximise income through new business incentives and to ensure that resources are managed effectively. The Authority has established a housing and regeneration company 'Oportunitas Ltd' 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. In 2013 the Government provided additional incentives to increase funding and distribute reserves via the localisation of Business Rates and New Homes Bonus. Both of these have been beneficial to the Authority and are important elements of the future financial planning. Both the Medium Term Financial Strategy and Corporate Plan are regularly reviewed to ensure that the Authority is best placed to react to the new challenges facing the council.

### 9. General Fund Revenue

The cost of services reported in the Comprehensive Income and Expenditure Statement is £0.804m and the Council increased its General Fund reserve by £0.148m from £5.498m to £5.646m.

The Council has a strong process in place for the management of its day to day spending. In addition to regular monthly reports, there are quarterly public reports to the Cabinet and these are also presented to the Resources Scrutiny Committee. The Council has kept its spending within agreed budgets for a number of years and has continued to do so in 2014/15.

The Authority has a net under spend in 2014/15 of £0.148m after transfers to reserves. The headline components of this are:

- Democratic and Legal Services were under spent by £0.572m against budget due largely to contractual savings
- The Finance Service was under spent by £0.543m due mainly to increased investment income

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- Housing, Land and Property services were under spent by £0.608m – this is mainly due to a delay in corporate property projects.

Between 2013/14 and 2014/15, the Benefits caseload has decreased by 3.4% for Housing Benefit cases and 5% for Council Tax Reduction scheme cases. This is partly due to the changes in the Council Tax Reduction Scheme which has reduced the benefits available to certain categories of tax payers.

The 2014/15 budget originally included a £0.189m target for interest earnings from investments. The basis for the budget assumption was for 2% overall being received on investment earnings. This was based on interest rates recovering earlier than is now the case. Actual interest earned during the year totalled £0.516m.

The higher outturn against budget in part reflected the purchase of CCLA investments which returned additional dividend income of £0.128m and reflects increased interest in short term investments and the Authority's decision to no longer invest in Building Societies due to the risk element of holding such investments.

In relation to reserves and provisions, the Council transferred £1m to the New Homes Bonus Reserve in order to provide for property and housing initiatives within the Authority's long term plan. The council has usable reserves, at the year end, of £28.3m, which are set out in the Movement in Reserves Statement on page 33.

Local authorities are now required to allow for the cost of outstanding valuation appeals that remain unsettled as at the end of the financial year. For further information please see the disclosure note on Page 65.

The Appeals provision was set aside last year to fund business rates appeals amounting to £595k following the Government changes to business rates, as set out earlier in the Explanatory Foreword. This has been increased to just over £1m and those that are over one year or more transferred to a long term provision.

There were no material write-offs during the year.

The following statement shows the total of General Fund service expenditure for 2014/15. Net expenditure/income that is not service related is added to arrive at the amount to be met from government grants and taxpayers. The final surplus to the General Reserve for the year was £0.148m. The net transfer from earmarked reserves was £1.928m more than the projection, meaning that the surplus (before movement on earmarked reserves) was £1.346m more than expected. The outturn net expenditure 'by Service' is shown in the graphs and tables below:

## EXPLANATORY FOREWORD

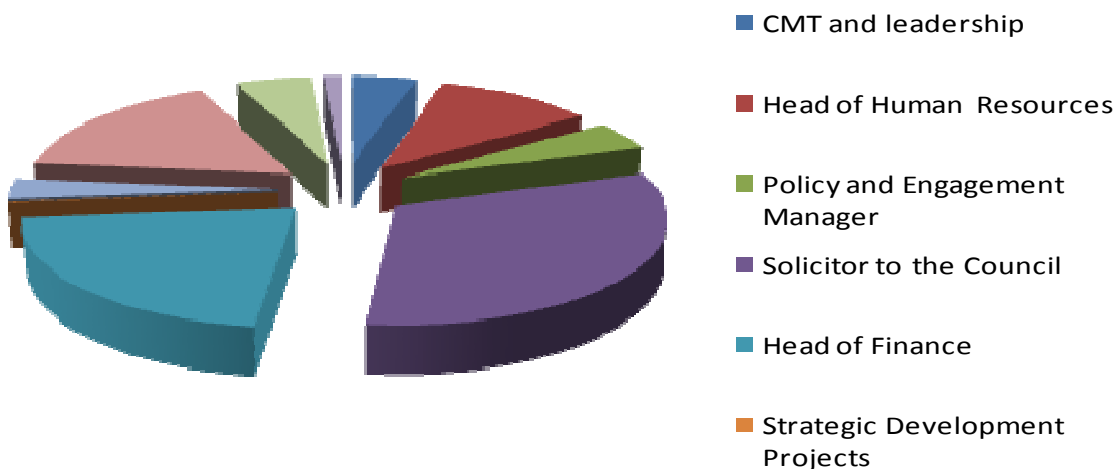
General Fund Revenue	Original Budget 2014/15 £'000	Latest Budget 2014/15 £'000	Actual Outturn 2014/15 £'000	Variance 2014/15 Original Budget £'000
<b>Cost of Services:</b>				
Service Expenditure	17,387	18,959	15,355	(2,032)
Interest payable and other capital financing costs	1,441	1,709	1,523	82
Interest receipts	(189)	(189)	(516)	(327)
<b>Net Service Expenditure</b>	<b>18,639</b>	<b>20,479</b>	<b>16,362</b>	<b>(2,277)</b>
Parish Precepts	1,528	1,528	1,528	0
<b>Amount to be met from Government Grant/ Taxpayers</b>	<b>20,167</b>	<b>22,007</b>	<b>17,890</b>	<b>(2,277)</b>
Government Grants (Non-Service)	(6,087)	(6,087)	(4,967)	1120
Council Tax	(9,955)	(9,955)	(9,955)	0
Business Rates	(3,720)	(3,720)	(4,171)	(451)
<b>Total income</b>	<b>(19,762)</b>	<b>(19,762)</b>	<b>(19,093)</b>	<b>669</b>
<b>Net (Surplus)/Deficit before Transfers to Reserves</b>	<b>405</b>	<b>2,245</b>	<b>(1,203)</b>	<b>(1,608)</b>
Contributions to/from Earmarked Reserves	(449)	(2,267)	1,055	1,504
<b>Net charge to the General Fund</b>	<b>(44)</b>	<b>(22)</b>	<b>(148)</b>	<b>(104)</b>

## EXPLANATORY FOREWORD

The main movements between the Quarter four projection and the final outturn were:

	£000's	£000's
<b>Increase in income</b>		
Interest and investment income	(204)	
Planning and building regulation fees	(46)	
		(250)
<b>Decrease in income</b>		
Business rates income	278	
		278
<b>Decrease in expenditure</b>		
Delay in East Kent College funding	(400)	
Additional carry forwards taken to reserves	(425)	
Reduction in bad debt provision	(280)	
Capital expenditure financed from revenue	(151)	
Waste management contract	(117)	
		(1,373)
<b>Other net variations</b>		71
<b>Increase in net transfer to earmarked reserves</b>		1,928
Reduction in General Fund surplus		654
Projected General Fund surplus		(802)
<b>Final surplus to the General Reserve</b>		<b>(148)</b>

### £'000 General Fund Expenditure 2014/15 Outturn





## **EXPLANATORY FOREWORD**

### **HOUSING REVENUE ACCOUNT**

The Housing Revenue Account (HRA) general reserve at the end of 2014/15 was £4.3m (see page 103), which is £1m better than projected at quarter four budget monitoring. The main reasons for the movement in the HRA balance are as follows:

#### Overspends/Under recovery of income

Depreciation/Impairment and revaluation change	1,009
Repairs and Maintenance - Void repairs, Mears, pump stations, planned maintenance and Insurances	74
Interest on notional cash balances	59
Dwelling and Non Dwelling Rents due to increase in RTB sales and void garages	43
Pension Interest Cost and Expected Return on Assets	31
Loan charges - Interest	26
Revenue Contribution to Capital Expenditure	19
Other minor variances	9
	<b>1,270</b>

#### Underspends/Over recovery of income

General Management - recharges and premises insurance	(72)
Special Management - Non supported housing and supported housing	(71)
	<b>(143)</b>

<b>1,127</b>
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### **CAPITAL PROGRAMME**

The summary of the council's capital expenditure for 2014/15 was as follows:

	Approved Budget	Projected Outturn	Actual	Variance Projected Outturn to Variance
	£'000	£'000	£'000	£'000
General Fund	4,178	4,269	4,071	(198)
HRA	4,878	3,867	3,859	(8)
<b>Total</b>	<b>9,056</b>	<b>8,136</b>	<b>7,930</b>	<b>(206)</b>

The main reasons for the reduction were:

	<b>£'000</b>
Re-phasing of capital expenditure between 2013/14 and 2014/15	(166)
Net savings on HRA capital schemes	(8)
Other net changes	(32)
<b>Net reduction</b>	<b>(206)</b>

## EXPLANATORY FOREWORD

The council's capital investment of £7.93m was on the following:

	<b>£'000</b>
Housing revenue account properties	3,859
Redevelopment of Payers Park	1,196
Loans to Oportunitas Ltd (Housing and Regeneration entity)	720
Disabled facilities grants	659
New 3G Pitch, Cheriton Road Sports Ground	628
Coast Protection and Coastal Monitoring Schemes	487
Information Technology (hardware and software)	181
Grounds Maintenance Vehicles and Equipment	73
Office Adaptations (Ways of Working)	65
Other capital investment	62
<b>Total Capital Expenditure for the year</b>	<b>7,930</b>

The capital programme was financed as follows:

	<b>£000's</b>
Capital Receipts	1,001
Grants and Contributions	2,838
Revenue Contributions	1,110
HRA Major Repairs Reserve	2,981
<b>Total Financing</b>	<b>7,930</b>

Note 35 on page 82 sets out the nature of the capital investment and how it was financed. The investment of £7.93m includes £0.72m loan to the Authority's new subsidiary 'Oportunitas Ltd' for the provision of housing and regeneration initiatives. The loan has been utilised by the entity to acquire residential properties for rental to local residents. This expenditure does not increase the value of Property Plant and Equipment for the Authority and is an intercompany debtor.

The council had £7.58m of unapplied capital resources at 31 March 2015 as follows:

	<b>£000's</b>
Unapplied Government grants and other capital contributions (Movement in Reserves Statement, page 33)	747
Capital Receipts (Movement in Reserves Statement, page 33)	6,831
<b>Total Unapplied Capital Resources</b>	<b>7,579</b>

Of this amount £3.86m is planned to be applied in 2015/16 and a further £1.13m in future financial years in line with the Authority's approved Capital Programme.

## **EXPLANATORY FOREWORD**

### **COLLECTION FUND**

The Collection Fund had an overall surplus balance of £0.958m at the end of 2014/15, £0.765m business rates surplus and £3.592m council tax surplus of which Shepway District Council's share was £0.306m cumulatively for Business Rates and £0.652m for the Authority's share of Council Tax. In accordance with regulations, the surpluses and deficits are distributed between the preceptors such as Kent County Council, Department of Communities and Local Government (DCLG), Kent and Medway Fire and Rescue and Kent Police (Council Tax only).

The Collection Fund income during 2014/15 was £85.3m (£81.6m in 2013/14). There is a significant increase in income mainly due to the introduction of the Council Tax Reduction Scheme within the Collection Fund, which cost £8.2m in 2014/15 against £9.6m in 2013/14 and also a minor increase of 1.5% increase in properties and charges, along with a £1m reduction in discounts.

### **PENSION LIABILITY**

Shepway Council's net liability on the Kent County Council Pensions Fund at 31 March 2015 was £66.5m (£53.3m at 31 March 2014), giving an increase in liability of £13.2m. The increase is made up of actuarial losses of £11.5m plus in year movements of £1.7m. Further information about the increase can be found on page 84, note 37.

Compliance with International Accounting Standard 19 Employee Benefits does not directly impact on the actual level of employer contributions paid to the Kent County Council 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 more detail in note 38 in the Notes to the Financial Statements on pages 84 - 88. The total liability has an impact on the net worth of the Authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains sound. The deficit on the scheme will be recovered through contributions over the remaining life of the employees as assessed by the actuary.

Following the results of the Fund valuation the council has agreed an increase to its employer contributions for the next 3 financial years. In 2014/15 the pension contributions were £2.9m, compared to 2013/14 contributions of £2.6m (excluding any pension strain).

### **EVENTS AFTER THE BALANCE SHEET DATE**

There were no material non-adjusting events after the balance sheet date that requires disclosure.

### **EXCEPTIONAL ITEM – HRA VALUATION GAIN**

On advice from the council's valuer, the council's housing dwellings stock value has been uplifted by £9m (7.37%) to reflect the local trend experienced with residential properties. Further details are set out in Note 5 to the accounts. Whilst the gain must be credited to the Comprehensive Income and Expenditure Account it is reversed out through Movement in Reserves so as not to impact on final revenue reserves. The HRA valuation gain for the year was £9.1m.

### **AUDIT OF THE STATEMENT OF ACCOUNTS**

The Audit Commission appointed Grant Thornton UK LLP for the audit of the accounts for the year ended 31 March 2015. These accounts are in draft format as at the 30<sup>th</sup> June 2015 and until audited and approved by Members at the statutory date of the 30<sup>th</sup> September 2015.

## **EXPLANATORY FOREWORD**

### **FURTHER INFORMATION**

Further information about the accounts is available from the Head of Finance, Civic Centre, Castle Hill Avenue, Folkestone, Kent CT20 2QY (01303 853387). This is part of the Authority's policy of providing full information about the council's affairs.

Further information on the Accounts can be found on the Council's website by following the link below: <http://www.shepway.gov.uk/home>

or obtained from:

Joanna Miller,  
Section 151 Officer  
Shepway District Council  
Castle Hill Avenue  
Folkestone,  
CT20 2QY

Date : 29 September 2015

## **STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS**

This statement is given in respect of the Statement of Accounts 2014/15 as certified at the 30<sup>th</sup> June 2015 and approved at the 30<sup>th</sup> September 2015.

### **The Authority's Responsibilities:**

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this council, that officer is the Chief Finance Officer
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the Statement of Accounts by the Statutory date of 30<sup>th</sup> September 2015.

### **The Chief Financial Officer's Responsibilities**

The Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code). In this Authority, that officer is the Chief Finance Officer (Section 151 Officer), Joanna Miller.

In preparing this Statement of Accounts the Chief Finance Officer has:

- selected suitable accounting policies and applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Local Authority Code of Practice.

The Chief Finance Officer has also:

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

### **Certification of Section 151 Officer**

The Statement of Accounts present a true and fair view of the financial position of the Authority as at 31 March 2015 and its income and expenditure for the year ended on that date.

**Joanna Miller**  
Section 151 Officer and Chief Finance Officer

**Councillor Peter Simmons**  
Audit and Standards Committee (Chair)

Dated: 29<sup>th</sup> September, 2015

Dated 29<sup>th</sup> September, 2015

**GOVERNANCE STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL 2015**

**Scope of Responsibility**

This statement is given in respect of the Statement of Accounts for Shepway District Council.

I acknowledge my responsibility for ensuring that an effective system of corporate governance is maintained and operated in connection with the resources concerned.

I confirm that the Authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the role of the Chief Financial Officer in Local Government (2010).

I confirm that the Annual Governance Statement included within this Statement of Accounts relates to the Governance system as it applied during the financial year for the Accounts 2014/15.

Signed.....Date.....

Chief Finance Officer, Joanna Miller

## **ANNUAL GOVERNANCE STATEMENT**

### **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 of regulation 4 of the Accounts and Audit (England) Regulations 2011.

### **2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK**

- 2.1 The governance framework comprises of 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 2015, 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.

## ANNUAL GOVERNANCE STATEMENT

### 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, which have been developed by each team manager, provide the priorities, actions, key milestones and performance indicators that will be the focus for the coming year. These operational service plans have been developed in conjunction with the current Corporate Plan and all actions are fully financed and support the five strategic objectives set out in the Corporate Plan. In addition to Service Plans all Direct Reports have produced Strategic Overview Statements which provides the 'golden thread' between the Corporate Plan and the Operational Service 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 are reported to the Resources Scrutiny Committee and Cabinet. The service plans will be reviewed in October 2015.

The Service Plans also detail the operational risks for each of the services linking in with our risk management arrangements. All the Council's strategic risks are documented in the Corporate Risk register, which is reviewed 3 times a year.

The Service Plans also details the Equality Impact Assessments that need carried out by each of the services, 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. These arrangements have been strengthened following a review in 2013. 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). The Council's Business Continuity arrangements are reviewed annually, and the teams' Business Continuity Plans are updated within the same timetable as the Service Plans.

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:***

A new local Code of Corporate Governance was introduced in 2013. Its aim is to ensure that good governance arrangements are in place and are demonstrating good outcomes for our community and service users. This is achieved through good risk management,



## ANNUAL GOVERNANCE STATEMENT

performance, financial and internal control processes. A recent audit report on the Code returned a “Substantial Level of Assurance”. The Council keeps the local Code under review to ensure its continuing relevance. No amendments are proposed now, however this should be read in conjunction with the next paragraph.

CIPFA/SOLACE (the Society of Local Authority Chief Executives) is currently reviewing its Delivering Good Governance in Local Government: Framework and accompanying guidance to ensure that it remains ‘fit for purpose’ and they intend to develop a revised guidance note. The aim is to publish an updated framework and guidance in late 2015. This revision could have an effect on the Council’s Governance Framework, particularly the Local Code of Corporate Governance and accordingly one of the actions in the coming year is to review the governance arrangements in the light of any revised framework and guidance.

### 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 Council has adopted its revised performance management framework in July 2014 (Report C/14/14). The framework for measuring and reporting the quality and effectiveness of council services is based on a balanced scorecard approach. This means that the senior management team and elected members receive regular performance updates across five areas of organisational performance:

- (1) Progress in delivering the Council’s priorities, as set out in the Corporate Plan;
  - (2) The quality of council services and the customer experience;
  - (3) The effectiveness of the Council’s internal processes (e.g. programme management, risk management);
  - (4) The efficient and effective use of council resources; and
  - (5) Matters relating to organisational development and the effectiveness of council staff.
- The most recent performance report to Cabinet was received in April 2015 (Report C/14/96).

The Annual Equality Report 2014 (Report C/14/105) sets out details of customer satisfactions surveys conducted across the Authority.

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.

### 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.***

## ANNUAL GOVERNANCE STATEMENT

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. A complete review of the Constitution was carried out in March 2015 for introduction on 9 May 2015. This takes into account the reduction in the number of members to thirty.

The Cabinet is the part of the Council that is responsible for most strategic decisions. In 2014/15, Cabinet comprised the leader and nine other councillors. All decisions to be discussed are published prior to the relevant meeting under the relevant publication regulations. The two overview and scrutiny committees identify any decisions they wish to contribute to, or comment on prior to the decision being taken. The Resources Scrutiny Committee also operates the powers of call-in. 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 has to make 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 Standards Committee comprising of five councillors. The Council has also appointed an Independent Person in accordance with the 2011 Act.

The Monitoring Officer is dealing with two complaints under the Code in consultation with the Independent Person. Consideration of the complaints is continuing.

The following training is compulsory for all staff, and is part of the induction process;

- Safeguarding/ Child Protection training

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- Equality and Diversity Training
- Data Protection Act

### 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. During 2014/15, the Financial Procedure Rules were reviewed fully as part of the review of the Constitution, in preparation for the move to thirty councillors.

### 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 Standards 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

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formal risk assessment that seeks to ensure that 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 adopted by Cabinet on 20 July 2011 (minute 16) as part of the Antifraud 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 Standards Committee.

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 three 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.

Responsibility for the corporate complaints function has recently been transferred to the Head of Democratic Services and Law. She will be assessing the training needs in the coming year and ensuring that the training is delivered. The Local Government Ombudsman delivered a half day training session entitled 'Effective Complaints Handling' to a group of middle managers with responsibility for investigating stage two complaints in February 2015.

During 2014/15, 212 official complaints were recorded by the council's Complaints Team (185 stage one, 26 stage two and 1 LGO) under the following categories:

- Strategic Projects
- Solicitor to the Council
- Communities
- Customer Contact
- Planning Services
- Waste Services

Instances of learning from complaints include:

- prioritisation at senior management level of monitoring missed bins,
- out of hours customer contact team to be informed of dogs taken into kennels,
- new meeting checklist created for public meetings and signs for the public gallery door,
- more patience and listening from customer services,
- option of providing paper planning applications for those who do not have internet access,
- review of poll card delivery,
- all deed poll name changes to be passed to council tax,

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- Investigate as to whether Council Tax staff do not have to adjust the printer before printing bills.

### 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 2011 elections. This consisted of the following:

- Audit and Compliance training session
- Cabinet Training
- Chaining skills
- Council Procedure Rules
- Councillor Induction and tour of Civic Centre
- Developing Effective Partnerships
- Final Accounts
- Financial Scrutiny
- Introduction to Local Government Finance
- Leadership Training
- Licensing Training
- Media Training
- Planning
- Shepway District Council session
- The annual meeting and the role of the council chairman

Since the 2011 training programme, arrangements have been in place whereby members can arrange additional training. A full training programme for members is being planned for June-September 2015. In addition, the Councillor Guide for newly elected members has been reviewed and updated.

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, personal resilience, alternative service provision, and community engagement.

### 3.1.11 ***Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.***

The Council has methods and processes for engaging and consulting with the local community as set out in the Engagement Strategy 2009-12, and the associated consultation toolkits. In 2015/16 the Council will adopt its new Community Empowerment and Participation Strategy, which will set how the Council will deliver its strategic objective of listening to local people, as expressed in the Corporate Plan 2013-18. The overall aim of the strategy is to provide opportunities for residents to influence decisions and shape their local community.

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In 2014/15, the Council formed a member working group to consider how the Council should operate with a membership of thirty post the district council election in May 2015. Report C/14/77 outlines changes to the Council's Constitution, the development of the Council's Community Participation and Empowerment Strategy which promotes the role of ward councillors, Ward Budgets and Ward Plans. These changes have significantly strengthened the way ward councillors and the Council in general will engage with local communities and other stakeholders to bring about positive change in wards across the district. As a result of this work and a comprehensive review of community funding across the authority, the Council has also chosen to increase its funding for community related activity to £300,000 with the introduction of ward plans from 2015/16.

The Annual Equality Report 2014 (Report C/14/105) sets out details of the public consultations undertaken during the past year:

- Princes Parade
- Chilham Road Controlled Parking Zone
- Folkestone West Controlled Parking Zone Review and Proposed Extension
- Disabled Parking and Limited Waiting in Folkestone Town Centre
- Proposed relocation of Disabled Parking bays in Central Folkestone
- New polling district and places review
- Housing Allocation Policy
- Community Infrastructure Levy

More details of the consultations that have been undertaken by the Council are available on the Council's website.

<http://www.shepway.gov.uk/content/view/201523/83/>

In April 2013, Cabinet approved the Shepway Community Compact. This document summarises a number of statutory community rights and other provisions that local communities can exercise with regard to services provided by Shepway District Council. The Compact includes a Code of Practice on Consultation and Engagement, which the Council aims to promote with Town and Parish Councils and local community and voluntary groups. The compact will be refreshed in 2015/16. Moreover, the Council is considering the merits of adopting a Parish Charter and this will be debated at the Shepway District Parish Council Joint Committee.

The Economic Development Strategy 2015 sets out the Council's ambitions for economic growth and outlines how the Council will deliver its actions in Corporate Plan relating to building the local economy. The Strategy also details how the Council engages with the local business community.

The Government has introduced a Code of Transparency for Local Authorities. This increases further transparency of financial management, data and expenditure. Steps are currently being taken to make the information more accessible.

### 3.1.12 ***Arrangements for incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's***

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### ***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 of the Council's corporate partnerships are recorded on the Corporate Partnerships Register.

Our key partnerships/alternative service delivery models are detailed below.

East Kent Housing 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 Shepway, Dover, Thanet and Canterbury 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. The East Kent Audit Partnership audited SDC's service in early 2015 and found adequate reassurance in the service provided and in meeting statutory duties. Additionally regular reporting to the Police and Crime Commissioner assures all financial spend is appropriately used. The Community Overview Committee (which has a statutory duty to do so), CMT and other groups regularly oversee elements of the work of the CSP.

On 16 July 2014 the Cabinet approved the formation of a housing and regeneration company – Oportunitas Ltd – 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 expired on 20 May 2015 and were reviewed by the Audit and Standards Committee on the 24 June 2015.

The Council is also a member of the 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.

## **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

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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 Standards 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 planned the budget.

### *The Resources 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 Standards 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) 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.



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### *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 is delegated under contract from Dover District Council. This provides sound objectivity as well as benefiting from a large and robust pool of resources.

### *External Audit*

The external audit work of the Council is undertaken by Grant Thornton. 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 Council's financial statements 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.

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### *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 Standards Committee.

- 4.4 The Council has, by reports to the Audit and Standards 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 Assessment of the System of Internal Control 2014/15. The overall opinion, based on the work of the East Kent Audit Partnership during 2014/15 is:
- There are no major areas of concern
  - The Council can have very good levels of assurance in respect of all of its main financial systems and the majority of its governance arrangements.
  - Many of the main financial systems, which feed into the production of the Council's Financial Statements, have achieved a substantial assurance level following audit reviews.
  - There were three areas where only a partially limited assurance level was given which reflected a lack of confidence in arrangements, these were Creditors, EKH Leaseholders and EKH Tenant Health and Safety (Fire) and these were brought to officers' attention. Additionally a review with a partial no assurance was also flagged, this was EKH Tenants H & S (Lifts). A progress report later revised this assurance to 'Reasonable' following prompt action to improve the internal controls. These have been reported to Audit and Standards Committee as part of the Annual Audit Report 2014/15 and the progress Internal Audit's Recommendations will continue to be monitored.
- 4.6 The 2013/14 Annual Audit Letter from Grant Thornton summarised the following key messages:
- The financial statements received an unqualified opinion, confirming that they gave a true and fair view of the Council's financial position as at 31st March 2014 and its income and expenditure for the year.
  - An unqualified VfM conclusion confirming that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources; confirmation that the disclosures in Council's Whole of Government accounts pack were consistent with the audited financial statements.
  - 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 would be certified by the deadline of 30 November 2014.

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### 5. CERTIFICATION

- 5.1 Grant Thornton, as the Council's auditors, is required to certify the claims submitted by the Council.
- 5.2 For 2013/14 two claims were certified relating to expenditure of £43.9million. Both claim were submitted and certified by the required deadlines. Neither claim was qualified.

### 6. SIGNIFICANT GOVERNANCE ISSUES

- 6.1 Set out in the appendix is the action plan to deal with significant governance issues.

#### **Appendix 1 - Review of the 2014/15 Action Plan for improvement following review of effectiveness of governance arrangements.**

		Who	Date	Update
1	<p><b>Annual Review of Corporate Governance:</b> 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. This statement will also assess the effectiveness of the Local Code of Governance and its application, identifying any necessary changes to either and making recommendations to the Council.</p>	Monitoring Officer	May 2015	The Annual Governance Statement for 2014/15 will be presented to the Audit and Standards Committee on 24 June 2015. The action plan of the AGS specifically makes reference to the need to review the code of corporate governance in the light of impending new guidance.
2	<p><b>Audit recommendation:</b> Consideration should be given to undertaking checks on the Council's Intranet and Internet sites on the policies and strategies supporting the Local Code to ensure that old versions are deleted.</p>	Monitoring Officer	December 2014	Incorporated into the review of the website which was completed in May 2015.
3	<p><b>Staff training (governance):</b> Ensure all staff are aware of the governance arrangements of Shepway District Council, as part of the Team Leader and Middle Manager training programme.</p>	Monitoring Officer	April 2015	Middle Managers and Team Leaders have attended half day workshops on governance and decision making.
4	<p><b>Review these arrangements following the boundary review:</b> Update this Code as the boundary review confirms the number of elected members Shepway District Council will have from May 2015.</p>	Monitoring Officer	May 2015	The AGS makes reference to the reduction in number of members to 30. The remainder of the document remains appropriate.

		<b>Who</b>	<b>Date</b>	<b>Update</b>
5	<b>Performance management framework:</b> Develop a regime of monitoring performance that is fit for purpose and reflect the priorities of the organisation.	Policy and Engagement Manager	August 2014	This has been completed. Cabinet approved the council's revised PMF on the 30th July 2014.
6	<b>Staff Code of Conduct:</b> Review the staff code of conduct to ensure it remains relevant to the organisation.	Monitoring Officer	December 2014	This was considered by the Interim Head of Democratic Services. He considered a full review was not needed now, but that the code should be looked at as part of the review of H.R. policies.
7	<b>Training (Equality and Diversity):</b> An E-learning training module will be rolled out to all Council staff.	Head of Human Resources	June 2014	The online training module has been prepared and rolled out to all staff via the e-learning system. Latest figures (May 2015) show that 272 out of 312 staff with access to the online training software have completed the training.
8	<b>Anti fraud and corruption:</b> Keep the anti fraud policy under review to ensure that it remains relevant and up to date	Head of Finance and Solicitor to the Council	March 2015	The Head of Finance and the Interim Head of Democratic Services reviewed the Anti Fraud and Corruption Strategy in January 2015 and determined that it was still "fit for purpose." Minor changes will be made by July to reflect legislative changes.

**Appendix 2 - Action plan for improvement following review of effectiveness of governance arrangements (2015/16)**

		<b>Who</b>	<b>Date</b>
<b>1.</b>	<b>Annual Review of Corporate Governance:</b> 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 2016
<b>2.</b>	<b>Councillor training (governance):</b> Ensure that councillors are aware of the requirements of the code of conduct, licensing and planning codes and councillor / employee protocol as part of the councillor induction programme.	Monitoring Officer / Head of Human Resources	June 2015
<b>3.</b>	<b>Constitution:</b> Review the effectiveness of the constitution in the light of experience of the working of a 30 member council.	Monitoring Officer	May 2016
<b>4.</b>	<b>Governance Arrangements:</b> Review the Council's governance arrangements once the revised framework and guidance has been published by CIPFA / SOLACE	Monitoring Officer	December 2015
<b>5.</b>	<b>Anti fraud and corruption:</b> Keep the anti fraud policy under review to ensure that it remains relevant and up to date	Head of Finance	December 2015
<b>6.</b>	<b>Community Empowerment and Participation Strategy:</b> Adopt the Council's Community Empowerment and Participation Strategy.	Community Development Manager	July 2015
<b>7.</b>	<b>Ward Profiles and Ward Plans:</b> Manage the successful introduction of the Council's Ward Plans for the new electoral wards.	Community Development Manager	March 2016
<b>8.</b>	<b>Community Grants Framework</b> Implement a framework for improving the monitoring and reporting of community grants to thirds parties.	Corporate Contracts Manager	March 2016
<b>9.</b>	<b>Review dispensations granted to the councilors who are directors of Oportunitas</b> The audit and standards committee on 4 June 2014 granted dispensations to councilors who are directors of Oportunitas to speak and vote on matters relating to the company. It is intended to review this dispensation and make an assessment on whether they should be granted.	Monitoring Officer	June. 2015
<b>10.</b>	<b>New Delivery Models / Partnerships</b> Training to be arranged for senior managers and members on good governance arrangements for alternative service delivery models / partnerships.	Head of Human Resources	September 2015

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The Authority proposes over the coming year to take steps to address matters shown in the appendix to further enhance our governance arrangements. The Authority 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 of our next annual review.

Signed.....Date.....

**Chief Executive – Alistair Stewart**

Signed.....Date.....

**Leader of the Council – Councillor David Monk**

## Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in 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.

2013/14				2014/15			
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Note	Gross Expenditure £'000	Gross income £'000	Net Expenditure £'000
3,032	(1,805)	1,227	Central services to the public		3,407	(1,831)	1,576
4,519	(1,098)	3,421	Cultural and related services		5,177	(1,988)	3,189
9,121	(2,911)	6,210	Environmental and regulatory services		9,207	(3,060)	6,147
3,677	(1,232)	2,445	Planning Services		3,617	(1,551)	2,066
1,661	(1,486)	175	Highways and transport services		1,768	(1,622)	146
12,080	(15,636)	(3,556)	Local Authority Housing (HRA)		13,764	(15,968)	(2,204)
(10,127)	0	(10,127)	Local Authority Housing (HRA) - exceptional item	5	(9,093)	0	(9,093)
45,853	(44,530)	1,323	Other housing services		45,804	(44,553)	1,251
1,653	(25)	1,628	Corporate and democratic core		1,718	(242)	1,476
250	0	250	Non distributed costs		1,728	0	1,728
<b>71,719</b>	<b>(68,723)</b>	<b>2,996</b>	<b>Cost Of Services</b>		<b>77,097</b>	<b>(70,815)</b>	<b>6,282</b>
5,942	(3,337)	2,605	Other Operating Expenditure	10	3,240	(1,377)	1,863
6,218	(2,390)	3,828	Financing and Investment Income and Expenditure	11	6,559	(2,777)	3,782
0	(9,986)	(9,986)	Council Tax Income	12	0	(10,842)	(10,842)
7,048	(10,439)	(3,391)	NNDR Income & Expenditure	12	7,081	(11,254)	(4,173)
0	(7,070)	(7,070)	Other Taxation and Non-Specific Grant Income	12	91	(6,126)	(6,035)
<b>90,927</b>	<b>(101,945)</b>	<b>(11,018)</b>	<b>(Surplus) or Deficit on Provision of Services</b>		<b>94,068</b>	<b>(103,191)</b>	<b>(9,123)</b>
0	(200)	(200)	(Surplus) or deficit on revaluation of Property, Plant and Equipment assets	23.1	155	(1,635)	(1,480)
0	(1)	(1)	Impairment Losses on non-current assets charged to the Revaluation Reserve	23.1	0	0	0
0	0	0	(Surplus) or deficit on revaluation of Available for Sale Financial assets	23.2	0	(128)	(128)
4,411	0	4,411	Remeasurement of the net defined liability	37.1	11,535		11,535
<b>4,411</b>	<b>(201)</b>	<b>4,210</b>	<b>Other Comprehensive Income and Expenditure</b>		<b>11,690</b>	<b>(1,763)</b>	<b>9,927</b>
<b>95,338</b>	<b>(102,146)</b>	<b>(6,808)</b>	<b>Total Comprehensive Income and Expenditure</b>		<b>105,758</b>	<b>(104,954)</b>	<b>804</b>

## Balance Sheet

The Balance Sheet shows the value at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority 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 Authority 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 under regulations'

2013/14 31 March 2014 £'000		Note	2014/15 31 March 2015 £'000
	<b>Non-Current Assets</b>		
32,572	Property, Plant & Equipment	13	33,494
120,145	Council Dwellings	13	125,023
1,332	Investment Property (including Assets Held for Sale)	14	1,424
273	Intangible Assets	15	262
8,013	Long Term Investments	16	3,132
4,702	Long Term Debtors	16	5,395
<b>167,037</b>	<b>Long Term Assets</b>		<b>168,730</b>
7,580	Short Term Investments	16	20,634
331	Assets Held for Sale	19	48
10	Inventories	-	11
6,274	Short Term Debtors	17	7,841
14,874	Cash and Cash Equivalents	18	13,454
<b>29,069</b>	<b>Current Assets</b>		<b>41,988</b>
(1,262)	Short Term Borrowing	16	(2,946)
(10,162)	Short Term Creditors	20	(12,389)
(658)	Current Provisions	21	(510)
(100)	Grants Receipts in Advance-Capital	33	(199)
<b>(12,182)</b>	<b>Current Liabilities</b>		<b>(16,044)</b>
(61,751)	Long Term Borrowing	16	(59,504)
(76)	Non-current Provisions	21	(671)
(177)	Capital Grants Receipts in Advance	33	(170)
(53,280)	Other Long Term Liabilities	37	(66,493)
<b>(115,284)</b>	<b>Long Term Liabilities</b>		<b>(126,838)</b>
<b>68,640</b>	<b>Net Assets</b>		<b>67,836</b>
24,589	Usable Reserves	22	28,345
44,051	Unusable Reserves	23	39,491
<b>68,640</b>	<b>Total Reserves</b>		<b>67,836</b>

I certify that the Accounts present a true and fair view of the financial position of the Authority and of its income and expenditure for the year ended 31 March 2015.

**Joanna Miller, Chief Finance Officer**

**Date: 29 September 2015**



### Movement in Reserves Statement 2014/15

This statement shows the movement in the year on the different reserves held by the Authority, 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 Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. 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 undertaken by the Authority.

Movement in Reserves Statement 2013/14	Note	Earmarked General			Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000	
		General Fund Balance £'000	Fund Reserves £'000 (Note 8)	Housing Revenue Account						Major Repairs Reserve
<b>Balance at 31 March 2013</b>		4,581	6,368	2,633	354	4,018	863	18,817	43,015	61,832
<b>Movement in reserves during 2013/14</b>										
Surplus or (deficit) on the provision of services		(797)	0	11,815	0	0	0	11,018	0	11,018
Other Comprehensive Income and Expenditure		0	0		0	0	0	0	4,210	(4,210)
<b>Total Comprehensive Income and Expenditure</b>		(797)	0	11,815	0	0	0	11,018	4,210	6,808
Adjustments between accounting basis & funding basis under regulations	8	4,101	0	(11,567)	(199)	2,328	91	(5,246)	5,246	0
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>		3,304	0	248	(199)	2,328	91	5,772	1,036	6,808
Transfers to/from Earmarked Reserves		(2,387)	2,387	0	0	0	0	0	0	0
<b>Increase/Decrease in 2013/14</b>		917	2,387	248	(199)	2,328	91	5,772	1,036	6,808
<b>Balance at 31 March 2014 carried forward</b>		5,498	8,755	2,881	155	6,346	954	24,589	44,051	68,640
<b>Movement in Reserves during 2014/15</b>										
Surplus or (deficit) on provision of services		(454)	0	9,577	0	0	0	9,123	0	9,123
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	0	(9,927)	(9,927)
<b>Total Comprehensive Income and Expenditure</b>		(454)	0	9,577	0	0	0	9,123	(9,927)	(804)
Adjustments between accounting basis & Funding basis under regulations	8	1,657	0	(8,206)	903	484	(206)	(5,368)	5,368	0
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>		1,203	0	1,371	903	484	(206)	3,755	(4,559)	(804)
Transfers to/from Earmarked Reserves	9	(1,055)	1,055	0	0	1	0	1	(1)	0
<b>Increase/Decrease in Year 2014/15</b>		148	1,055	1,371	903	485	(206)	3,756	(4,560)	(804)
<b>Balance at 31 March 2015 carried forward</b>		5,646	9,810	4,252	1,058	6,831	748	28,345	39,491	67,836

## Cash-Flow Statement 2014/15

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

2013/14 £'000		Note	2014/15 £'000
<b>11,018</b>	<b>Net Surplus/(Deficit) on the Provision of Services</b>		<b>9,122</b>
5,288	Adjustments to net surplus or deficit on the provision of services for non-cash movements		1,422
(4,037)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(3,959)
<b>12,269</b>	<b>Net cash flows from Operating Activities</b>	<b>24</b>	<b>6,585</b>
(1,462)	<b>Investing Activities</b>	25	(10,431)
46	<b>Financing Activities</b>	26	2,426
<b>10,853</b>	<b>Net (increase)/decrease in Cash and Cash Equivalents</b>		<b>(1,420)</b>
4,021	Cash and Cash Equivalents at the beginning of the reporting period	18	14,874
<b>14,874</b>	<b>Cash and Cash Equivalents at the end of the reporting period</b>	<b>20</b>	<b>13,454</b>

### Statement of Accounting Policies:

#### 1. Introduction

This Statement of Accounts summarises the Authority's transactions for the 2014/15 financial year and its position at the year-end of 31 March 2015. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 which require preparation in accordance with proper accounting practices. These practices primarily comprise the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (The Code) and CIPFA's Service Reporting Code of Practice 2014/15 (SeRCOP), supported by International Financial Reporting Standards (IFRS) and Statutory guidance issued under Section 12 of the 2003 Act. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

#### 2. Accruals of Income and Expenditure

The Authority adopts Accruals Accounting in accordance with the CIPFA Code. Therefore, activity is accounted for in the year 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.

#### 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 Authority when there is reasonable assurance that:

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

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grants 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 Comprehensive Income and Expenditure Statement. Where capital grants are credited to the Comprehensive Income and Expenditure Statement they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

#### **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 Authority's cash management.

#### **5. Exceptional Items**

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

#### **6. Prior Period Adjustments, Changes in Accounting Policies, 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 Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

##### **6.1 Group Accounts and Disclosure of Interests in Other Entities**

For 2014/15, the Accounting standards were amended in respect of 'IFRS 12 Disclosure of Interest in other Entities' and 'IFRS 10 Consolidated Financial Statements'. The Standard on IFRS 13 Fair Value Measurement has been deferred until 2015/16. Where the local Authority has investments in associates and/or jointly controlled entities but no interests in subsidiaries, Group Accounts will be prepared unless their interest is considered not material. This complies with IFRS 10 (See relevant policies for Group Accounts) and IFRS 11 refers to Joint Ventures & Associates and Joint Operations. In compliance with IFRS 12, the Local Authority has interests in other Entities. We will report, by way of disclosure, the nature of and risks associated with the Authority's interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. (See relevant policy)

## **7. Overheads and Support Services**

The costs of the Authority'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 2014/15 (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 Authority's status as a multi-functional, democratic organisation.
- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale. These two categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

## **8. Reserves**

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves 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, Collection Fund Surpluses and Deficits and financial instruments. They do not represent usable resources for the Authority. Reserves (both Usable and Unusable) are explained in the relevant Accounting Policies and Disclosure Notes, but in summary:

<b>Usable Reserves</b>	<b>Unusable Reserves</b>
General Fund	Revaluation Reserve
Earmarked Reserves	Available for Sale Financial Instruments Reserve
Capital Grants unapplied	Financial Instruments Adjustment Account
Capital Receipts Reserve	Capital Adjustment Account
Housing Revenue Reserve	Deferred Capital Receipts Reserve
Major Repairs Reserve	Pensions Reserve
	Collection Fund Adjustment Account
	Accumulating Compensated Absences Adjustment

## 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 accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost 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 Authority 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 of:

- 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.
- Assets with a de-minimus of £10,000 or above to be recognised in the Balance Sheet

The Authority 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 Authority). 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 Authority. Where gains are credited to the Comprehensive Income & Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement. Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction - depreciated historical cost
- dwellings – fair value, determined using the basis of Existing Use Value for Social Housing (EUV-SH)
- all other assets - fair value, determined as the amount that would be paid for the asset in its existing use (Existing Use Value - EUV).

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 fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains may be credited to the Surplus or Deficit on the Provision of Services 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 Comprehensive Income and Expenditure Statement.

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.

### 10. Component Accounting Policy

International Accounting Standard 16 (IAS16) – Property, Plant and Equipment (PPE) contains the accounting requirements for the separate recognition, depreciation and de-recognition of parts of assets (referred to as componentisation). Componentisation shall be applied for depreciation purposes on enhancement, acquisition expenditure incurred and revaluations carried out from 1<sup>st</sup> 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 method of depreciation. Components of an asset will be separated where their value is significant in relation to the total value of the asset and where those components have different useful lives to 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 components 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 derecognised and the new component added. Where the carrying value of the derecognised/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 then only 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 balances will remain with the structure of the building. Any future revaluation gains and losses will be applied across components as appropriate.

### 11. 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 Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount

of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

## **12. 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 as a reasonable proxy for depreciation.

Depreciation is calculated on the following bases:

- council dwellings – notional MRA as a proxy for depreciation
- dwellings & 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 (PC's 4 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 separate Policy).

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.

## **13. Disposals and Non-current Assets Held For Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any 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 Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (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 (75% for dwellings, 50% for land and other assets, net of statutory deductions) are payable to Central Government. The balance



of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

#### **14. Charges to revenue for Non-Current Assets and Minimum Revenue Provision (MRP)**

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 Authority 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 Movement in Reserves Statement for the difference between the two.

#### **15. 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, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. 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 Comprehensive Income and Expenditure Statement. 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 Comprehensive Income and Expenditure Statement. Revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

#### **16. Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licenses) is capitalised when it is

expected that the future economic benefits or service potential will flow from the intangible asset to the Authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and it is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods and services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of assets held by the Authority can be determined by reference to an active market. In practice, no intangible assets held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising from disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

#### **17. 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 Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of such expenditure from existing capital resources or borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on Council tax.

#### **18. Borrowing Costs**

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

#### **19. Employee Benefits**

##### **19.1 Benefits Payable During Employment**

Short term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as 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 Authority. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to the (Surplus) or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

## 19.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the service area lines or where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for 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 Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

## 19.3 Post Employment Benefits

The Authority provides for the payment of pensions and other defined benefits to its employees by making payments and contributions to the Kent County Council Pension Scheme. The Scheme provides defined benefits to members (retirement lump sums and pensions) i.e. employees for the Local Authority.

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

- The liabilities of the KCC pension scheme attributable to the Authority 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 valued using a discount rate based on corporate bond yields that match the duration of the Authority's liabilities. At 31 March 2015, the Actuary will estimate the duration of the Authority's liabilities and then use the same point on the Merrill Lynch AA rated corporate bond yield curve which corresponds to this duration. This is the same approach as last year.
- The assets of the KCC pension fund attributable to the Authority are included in the balance sheet at their fair value:
  - Quoted securities-current bid price
  - Unquoted securities-professional estimate
  - Unlisted securities-current bid price
  - Property-market value

The change in the net pension 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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement as part of Non-distributed Costs

- Net interest on the net defined liability i.e. 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 Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability 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 Authority 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.

#### **19.4 Discretionary Benefits**

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

#### **20 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.

## **21 Financial Assets**

Financial assets are classified into three 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.
- Financial instruments at Fair Value through Profit or Loss.

## **22 Financial Liabilities**

Financial liabilities are recognised when the Authority 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 Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts 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 Authority 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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain/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 relating 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 Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

## **23 Provisions, contingent assets and contingent liabilities**

### **23.1 Provisions**

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made about the amount of the obligation. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are 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 Authority settles the obligation.

### **23.2 Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Authority 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 Authority. 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.

### **24 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.

### **25 Value Added Tax**

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

### **26 Interests in Companies and Other Entities**

The Authority has a material interest in other entities that have the nature of subsidiaries, associates and jointly controlled entities, group accounts are prepared.

In the Authority's own single entity accounts, the interest in other companies and entities are recorded as financial assets at cost, less any provision for losses. The Authority will also report on the effects of interests on its financial position, financial performance and cash flows.

## **MEMORANDUM NOTES ARISING FROM STATUTORY OBLIGATIONS – ACCOUNTING PRINCIPLES**

### **27 Collection Fund (England)**

The Collection Fund Statement is an agent's statement that reflects the statutory obligations for billing authorities to maintain a separate Collection Fund in accordance with Section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992). The Collection Fund shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and non-domestic rates. There is no requirement for a Collection Fund Balance Sheet since the assets and liabilities arising from collecting non-domestic rates and Council tax belong to the bodies i.e. major preceptors (Kent County Council, Kent Police and Kent and Medway Fire & Rescue), the billing Authority and the Government, on behalf of which the

billing Authority collects these taxes. As a result of the Local Government Finance Act 2012, and the introduction of the Business Rate Retention Scheme, the Authority will maintain separate surpluses and deficits for Council tax and Business Rates.

## **28 Tax Income (Council Tax Income) – Recognition and Measurement**

Council Tax income is recognised in the Comprehensive Income and Expenditure Statement for the year shall be the accrued income for the year. Council tax is, in substance, an Agency arrangement; therefore cash collected from Council tax Debtors belongs to Shepway District Council as the billing Authority and major preceptors, Kent County Council, Kent Police Authority and Kent Fire & Rescue. There will therefore be a debtor/creditor position between the billing authority and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of cash collected from Council taxpayers. The amount by which Council tax income is credited to the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation will be posted to the Collection Fund Account via the Movement in Reserves Statement. Revenue relating to Council tax will be measured at the full amount receivable.

## **29 Accounting for National Non Domestic Rates (NNDR) and Business Rate Retention schemes – Recognition and Measurement**

Billing authorities collect NNDR under what is in substance an Agency Agreement with the Government and major preceptors.

- NNDR income will be allocated between the billing Authority 'Shepway District Council, major preceptors Kent County Council (KCC), Kent and Medway Fire & Rescue (KFRS) and the government Department for Communities and Local Government (DCLG) applying the Agency/Principal treatments as necessary.
- NNDR income shall be recognised in its Comprehensive Income and Expenditure Statement as accrued income.
- A debtor/creditor position will be shared between the Authority and its major preceptors for cash paid/cash collected.
- Separate surpluses/deficits will be calculated in relation to Council tax and NNDR on the Authority's Collection Fund Account.
- Bad Debt write-offs or movements in the provision will be shared proportionately between the billing authority, major preceptors and Central Government ( Shepway District Council, Kent County Council, Kent & Medway Fire & Rescue and the Department for Communities and Local Government)
- For NNDR, tariffs and top-ups, safety net and levy payments will be made to/from the General Fund. These transactions will be recognised in the Comprehensive Income and Expenditure Statement (CIES) on an accruals basis. The cost of collection allowance is income of the authority and shall be included in this statement.
- The Cash Flow Statement for the Authority will include in 'Operating activities' the share of NNDR net cash collection from Debtors and amounts paid shall exclude the amounts paid over to the DCLG and Kent County Council (KCC). Differences between cash collected/paid to/from the DCL, KCC and KFRS from previous year's surplus or deficits shall be included within the financing activities in the Cash Flow Statement.
- The Movement in Reserves Statement will include a reconciling transaction for the timing difference between the prior and current year, with the Collection Fund Adjustment Account, for the difference between the amounts credited to the CIES under statutory provisions in the proportionate shares.

## **Statement of Accounting Policies – Group Accounts**

### **1. Basis of Consolidation**

The Group Accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of the Authority and Oportunitas Ltd. This company is a wholly owned subsidiary. Consequently any gains and losses arising from this company is fully reflected in the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, Group Movement in Reserves Statement and Group Cashflow Statement. Where the Local Authority has investments in associates and/or jointly controlled entities but no interests in subsidiaries, Group Accounts will be prepared if their interest is considered material.

### **2. Accounting Policies**

Group Accounts are prepared using consistent accounting policies, aligning the Authority's Financial Statements more closely with IFRS (where material) by requiring the figures for subsidiaries, associates and joint ventures to include valuations for Property, Plant and Equipment.

### **3. Value Added Tax (VAT)**

VAT paid by Oportunitas Ltd is accounted for in the Group Comprehensive Income and Expenditure Statement to the extent that it is irrecoverable from HM Customs and Revenue. VAT receivable is excluded from Income.

### **4. Internal Charges against the Group Income and Expenditure Reserve/Intra group charges**

There are Intra-group charges which will be eliminated via the consolidation such as Members Expense transfer charges in relation to Director's Remuneration, SLA Recharge income, Loan interest and fee set up costs, and other intra-group charges such Grounds Maintenance income from General Fund.

### **5. Taxation**

Deferred Taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

### **6. Going Concern**

Accounts will be prepared on a going concern basis and reviewed by an independent Auditor. Under the going concern basis it is foreseeable that a company will continue in operation and will report any material uncertainties by way of disclosure.

## **Note 2 – Accounting Standards issued but not adopted**

Paragraph 3.3.2.13 of the 2014/15 Code requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code.

Paragraph 3.3.4.3 requires an authority 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 financial year. The standards introduced in the 2015/16 Code that are relevant to the requirements of paragraph 3.3.4.3 are:

- IFRS 13 *Fair Value Measurement* (May 2011);



## Notes 1 to 7 including Statement of Accounting Policies

- *Annual Improvements to IFRSs (2011 – 2013 Cycle)*
- IFRIC 21 *Levies*.

The issues included in the *Annual Improvements to IFRSs 2011 – 2013* cycle are:

- IFRS 1: Meaning of effective IFRSs;
- IFRS 3: Scope exceptions for joint ventures;
- IFRS 13 - Scope of paragraph 52 (portfolio exception) and
- IAS 40: Clarifying the interrelationship of IFRS 3 Business Combinations and
- IAS 40 Investment Property when classifying property as investment property or owner-occupied property

### **Note 3 – Critical judgements in applying Accounting Policies**

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

#### **Funding levels:**

There continues to be a high degree of uncertainty about future levels of funding for Local Government beyond 2015/16. However, the Authority has determined that this uncertainty is not sufficient to provide an indication that the assets of the Authority 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 Authority 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 Authority. It has been determined that the Authority does not have the power to control the Trust and it is therefore not a subsidiary of the Authority. For further details please see Note 4 on Page 90.

#### **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 Comprehensive Income and Expenditure Statement.

#### **East Kent Housing – Arms Length Management Organisation**

The Authority has a 25% interest in East Kent Housing as a related party and is jointly owned with three other local authorities. Having due regard to both the quantitative and qualitative aspects of materiality the Authority has concluded that the preparation of group accounts is not required.

#### **Oportunitas Ltd – A wholly owned subsidiary of the Authority**

The Authority has set up a wholly owned subsidiary entity to generate additional income streams for the Authority and to provide additional residential housing in the district. The entity has been consolidated within the Group Accounts on Page 109.

**East Kent Spatial Development Company Ltd**

The Authority and four other Councils has an interest in East Kent Spatial Development Company which has been classified as a Related Party. There is no controlling party or influence. Further details can be found in Note 41 on Page 92.

**Heritage Assets:**

The Authority 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.

**Note 4 – Assumptions made about the future and other Major Sources of Estimation Uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Authority’s Balance Sheet at 31<sup>st</sup> March 2015 for which there are significant risk of material adjustment in the forthcoming financial year are as follows. Where uncertainties occur within the comparative year this will be stated:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant & 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 Authority can sustain its current level of expenditure on such repairs. This creates uncertainty surrounding the useful lives applied to individual assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of assets falls. It is estimated that the annual depreciation charge for non-housing assets would increase by £0.326m 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. The Authority uses a consultant 'Barnett Waddingham' to provide Actuarial figures using assumptions that have been applied to manage the LGPS Fund. This fund is managed by the Kent Pension Fund and further details are shown in Page 83 - Note 37	The effects on the net pensions liability of changes to individual assumptions are shown in the sensitivity analysis within the Actuarial assumptions. An increase in the discount rate of 0.1% would result in a decrease in the pension fund obligation of £2.4m. Further details are on Pages 83-88 in Disclosure Note 37.

**Note 5 – Exceptional Items – HRA Valuation Gain**

On the advice of the council’s external valuer, the council’s dwellings value of £125m has been increased by 7.37%, i.e. £9m, to reflect the experience of property valuation changes seen in the south east over the past year (see Note 13 to the Core Financial Statements). As previous revaluation losses on these dwellings have been charged to the HRA Income and Expenditure Account in the past this valuation gain is taken to the Comprehensive Income and Expenditure Statement to reverse previous losses and are not taken to the Revaluation Reserve.

**Note 6 – Material Items of Income and Expense**

Material amounts of Income and Expenses are included within the Comprehensive Income and Expenditure Statement. These include Housing Benefit Rent allowance and Non-HRA rent rebate payments which are supported by approximately 98% of Government Grants. Payments of Housing Benefit Rent allowances and Rent Rebates for the year 2014/15 totalled £42.2m and are included in Note 33 on Page 79.

**Note 7 - Events after the Balance Sheet Date**

There are no material non-adjusting or adjusting events after the Balance Sheet date that require disclosure.

**Note 8 – Adjustments between Accounting Basis and Funding Basis under Regulations**

This note sets out the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure. This is set out in the following disclosure note.

**General Fund Balance**

The General Fund is the Statutory fund into which all the receipts of the Authority are required to be paid out of which all the liabilities of the Authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice.

**Capital Receipts Reserve**

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

**Capital Grants Unapplied**

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

**HRA Reserve/Major Repairs Reserve**

Held for the restricted and statutory purposes of HRA Retained surpluses with movements to/from the Major Repairs Reserve (MRR) including Capital expenditure and depreciation held in the MRR (used to fund Major Repairs and improvement works).

Note 8: Adjustments between Accounting and Funding Basis Under Regulation	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Major Receipts Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
<b>2014/15</b>						
<b>Adjustments involving the Capital Adjustment Account:</b>						
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Charges for depreciation and impairment of non current assets	2,844	6,850	0	0	0	(9,694)
Revaluation losses on Property Plant and equipment	20	(9,339)	0	0	0	9,319
Movements in the Fair Value of Investment Properties	(132)	0	0	0	0	132
Amortisation of Intangible assets	86	0	0	0	0	(86)
Revenue expenditure funded from capital under statute	1,900	0	0	0	0	(1,900)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	(8)	1,011	0	0	0	(1,003)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>			0	0	0	0
Statutory Provision for financing of Capital investment (MRP)	(579)	(900)	0	0	0	1,479
Capital expenditure charged against the General Fund and HRA balances	(423)	(3,668)	0	0	0	4,091
<b>Capital Grant and contributions unapplied Account:</b>						
Application of Capital Grants & Contributions to capital financing transferred to the CAA	(2,635)	0	0	0	244	2,391
Capital Grants and Contributions unapplied credited to the CIES	0	0	0	0	(450)	450
<b>Adjustments involving the Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(91)	(1,366)	0	1,680	0	(223)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	(1,001)	0	1,001
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	195	0	0	(195)	0	0
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve:</b>						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	2	2	0	0	0	(4)
<b>Adjustments primarily involving the Major Repairs Reserve:</b>						
HRA depreciation transfer	0	(3,884)	3,884	0	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	2,981	(2,981)	0	0	0
<b>Adjustment primarily involving the Financial Instruments Adjustment Account:</b>						
Amount by which Finance costs charged to the Comprehensive Income & Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(144)	24	0	0	0	120
<b>Adjustments involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 37)	2,791	219	0	0	0	(3,010)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,196)	(136)	0	0	0	1,332
<b>Adjustments involving the Collection Fund Adjustment Account:</b>						
Amount by which Council Tax credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with Statutory requirements	(316)	0	0	0	0	316
Amount by which NNDR credited to the Comprehensive Income and Expenditure Statement is different from NNDR income calculated for the year in accordance with Statutory requirements	(572)	0	0	0	0	572
NNDR adjustment	(91)	0	0	0	0	91
<b>Adjustment involving the Accumulating Compensated Absences Adjustment Account</b>						
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	6	0	0	0	0	(6)
<b>Total Adjustments 2014/15</b>	<b>1,657</b>	<b>(8,206)</b>	<b>903</b>	<b>484</b>	<b>(206)</b>	<b>5,368</b>

Note 8: Adjustments between Accounting and Funding Basis Under Regulation	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Major Receipts Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
<b>2013/14 Comparative</b>						
<b>Adjustments involving the Capital Adjustment Account:</b>						
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Charges for depreciation and impairment of non current assets	2,791	2,766	0	0	0	(5,557)
Revaluation losses on Property Plant and equipment	0	(10,334)	0	0	0	10,334
Movements in the Fair Value of Investment Properties	0	0	0	0	0	0
Amortisation of Intangible assets	97	0	0	0	0	(97)
Revenue expenditure funded from capital under statute	1,059	0	0	0	0	(1,059)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	2,991	703	0	0	0	(3,694)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>						0
Statutory Provision for financing of Capital investment (MRP)	(594)	(3,770)	0	0	0	4,364
Capital expenditure charged against the General Fund and HRA balances	(529)	(96)	0	0	0	625
<b>Capital Grant and contributions unapplied Account:</b>						
Application of Capital Grants & Contributions to capital financing transferred to the CAA	0	0	0	0	(313)	313
Capital Grants and Contributions unapplied credited to the CIES	(1,287)	0	0	0	404	883
<b>Transfer in respect of Community Infrastructure levy receipts</b>						0
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>						0
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(2,224)	(959)	0	3,246	0	(63)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	(740)	0	740
Contribution from the Capital Receipts Reserve to finance the payments to the Government Capital Receipts Pool	178	0	0	(178)	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	0	0	0	0
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve:</b>						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	2	2	0	0	0	(4)
<b>Adjustments primarily involving the Major Repairs Reserve:</b>						
HRA depreciation transfer	0	0	2,692	0	0	(2,692)
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	(2,891)	0	0	2,891
<b>Adjustment primarily involving the Financial Instruments Adjustment Account:</b>						
Amount by which Finance costs charged to the Comprehensive Income & Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(165)	24	0	0	0	141
<b>Adjustments involving the Pensions Reserve:</b>						0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 38)	4,174	216	0	0	0	(4,390)
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,430)	(119)	0	0	0	2,549
<b>Adjustments involving the Collection Fund Adjustment Account:</b>						0
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	30	0	0	0	0	(30)
<b>Adjustment involving the Accumulating Compensated Absences Adjustment Account</b>						0
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	8	0	0	0	0	(8)
<b>Total Adjustments 2013/14</b>	<b>4,101</b>	<b>(11,567)</b>	<b>(199)</b>	<b>2,328</b>	<b>91</b>	<b>5,246</b>

### Note 9. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2014/15.

	Balance at 1 April 2013 £'000	Transfers In 2013/14 £'000	Transfers Out 2013/14 £'000	Balance at 31 March 2014 £'000	Transfers In 2014/15 £'000	Transfers Out 2014/15 £'000	Balance at 31 March 2015 £'000
<b>General Fund:</b>							
Business Rates	0	1,076	0	1,076	1,318	(564)	1,830
Leisure Reserve	326	0	(20)	306	0	(95)	211
Carry Forwards	1,867	1,728	(1,609)	1,986	1,417	(1,803)	1,600
Corporate Property	30	0	0	30	20	(30)	20
Vehicles, Equipment & Technology	1,133	78	(226)	985	82	(231)	836
Invest to Save	538	0	(14)	524	0	(143)	381
Maintenance of Graves	12	0	0	12	0	0	12
New Homes Bonus	752	1,037	(1,789)	0	1,005	0	1,005
Corporate Initiatives	1,575	300	(658)	1,217	331	(278)	1,270
IFRS Reserves	135		(16)	119	43	(17)	145
Further Education	0	500	0	500	0	0	500
Economic Development	0	2,000	0	2,000	0	0	2,000
<b>Total</b>	<b>6,368</b>	<b>6,719</b>	<b>(4,332)</b>	<b>8,755</b>	<b>4,216</b>	<b>(3,161)</b>	<b>9,810</b>

### Note 10. Other Operating Expenditure

Other operating expenditure reported includes all levies payable, total payments made to the Government Housing Receipts Pool in line with statutory arrangements for certain property sales formally managed through the Housing Revenue Account and gains and losses generated from in year disposals of non - current assets.

	2013/14 £'000	2014/15 £'000
Parish council precepts	1,462	1,528
Internal Drainage Board levies	415	423
Payments to the Government Housing Capital Receipts Pool	178	195
(Gains)/losses on the disposal of non current assets	546	(295)
Other	4	12
<b>Total</b>	<b>2,605</b>	<b>1,863</b>

### Note 11. Financing and Investment Income and Expenditure

	2013/14 £'000	2014/15 £'000
Interest payable and similar charges	2,368	2,363
Net interest on the net defined liability (asset)	1,972	2,285
Investment property rental	(71)	(93)
Interest receivable and similar income	(421)	(641)
Income & Expenditure in relation to investment properties and changes in their	(20)	(132)
Other investment income	0	0
<b>Total</b>	<b>3,828</b>	<b>3,782</b>

## Note 12. Taxation and Non Specific Grant Income

This item consolidates all non specific grants and contributions receivable that cannot be identified to particular service expenditure, and therefore cannot be credited to the gross income amount relevant to the service area. All capital grants and contributions are credited to non specific grant income even if service specific. This note also identifies the Council's proportion of Council Tax and Business Rates used to fund in year business/service activities including those activities within Business Rate Retention.

2013/14 £'000		2014/15 £'000
(9,986)	Council tax income	(10,842)
<b>(9,986)</b>	<b>Subtotal Council Tax income</b>	<b>(10,842)</b>
(3,391)	Non domestic rates income and expenditure - Business Rate Retention Scheme *	(4,173)
(5,000)	Revenue Support Grant & Council Tax Freeze Grant	(3,927)
(1,600)	Non-ring fenced government grants	(1,130)
(470)	Capital grants and contributions	(978)
<b>(10,461)</b>	<b>Subtotal General Grants &amp; Contributions</b>	<b>(10,208)</b>
<b>(20,447)</b>	<b>Total Taxation and Non Specific Grant Income</b>	<b>(21,050)</b>

2013/14 £'000	Business Rate Retention Scheme - NNDR income and Expenditure comprises:-	2014/15 £'000
(10,439)	NNDR 1 figure SDC share income	(10,136)
6,113	less tariff	6,232
670	less levy	849
(75)	Plus due to Authority Section 31 grant	(61)
(465)	Section 31 grant paid on account (Small Business Rate Relief)	(485)
265	Shepway DC Share of Collection Fund surplus as per Note 44.1	(572)
<b>(3,931)</b>		<b>(4,173)</b>

2013/14 £'000	Business Rate Retention 2014/15 - Safety Net and Levy Calculation	2014/15 £'000
(25,435)	Total Billing NNDR	(26,769)
(48)	Localism Relief	(2)
(491)	Small Business Rate Relief	(664)
<b>(25,974)</b>	<b>Subtotal</b>	<b>(27,434)</b>
(10,714)	Authority Share of income at 40%	(11,254)
6,113	Less Tariff paid to Central Government (DCLG)	6,232
(4,601)	<b>Equals Total Retained Income</b>	<b>(5,022)</b>
670	Less Levy due to Central Government (DCLG)	849
<b>(3,931)</b>		<b>(4,173)</b>

2013/14 £'000	Business Rate Retention Scheme 2014/15 - Calculation of Levy	2014/15 £'000
4,601	Retained Income	5,022
<b>(3,261)</b>	Less Funding Baseline as per Statute	<b>(3,324)</b>
1,340	Equal Growth Amount	1,698
0.50	Levy rate - 1/2	0.50

**Note 13 - Property Plant & Equipment (PPE) Movements on Balances**

Movements in 2014/15	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant, furniture & Equipment £'000	Infra-structure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Const ruction £'000	Total Property, Plant and Equipment £'000
<b>Cost or Valuation</b>								
At 1 April 2014	<b>120,145</b>	<b>14,293</b>	<b>4,649</b>	<b>24,749</b>	<b>3,461</b>	<b>174</b>	<b>117</b>	<b>167,588</b>
Additions	2,876	14	327	758	0	0	1,259	<b>5,234</b>
Donations	0	0	0	0	0	0	0	<b>0</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	70	496	0	0	0	15	0	<b>581</b>
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	8,821	(35)	0	0	0	90	0	<b>8,876</b>
Derecognition - Disposals	0	0	0	0	0	(20)	0	<b>(20)</b>
Derecognition - Other	0	0	0	0	0	0	0	<b>0</b>
Assets reclassified (to)/from Held for Sale	(560)	0	0	0	0	0	0	<b>(560)</b>
Other movements in cost or valuation	(6,329)	0	0	0	0	0	0	<b>(6,329)</b>
<b>At 31 March 2015</b>	<b>125,023</b>	<b>14,768</b>	<b>4,976</b>	<b>25,507</b>	<b>3,461</b>	<b>259</b>	<b>1,376</b>	<b>175,370</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2014	<b>0</b>	<b>(1,362)</b>	<b>(2,608)</b>	<b>(10,901)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(14,871)</b>
Depreciation charge	(3,676)	(341)	(530)	(2,165)	0	0	0	<b>(6,712)</b>
Depreciation written out to the Revaluation Reserve		1,053	0	0	0	0	0	<b>1,053</b>
Depreciation written out to the Surplus/Deficit on the Provision of Services	223	0	0	0	0	0	0	<b>223</b>
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	<b>0</b>
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(2,876)	0	0	0	0	0	0	<b>(2,876)</b>
Derecognition - Disposals	0	0	0	0	0	0	0	<b>0</b>
Derecognition - Other	0	0	0	0	0	0	0	<b>0</b>
Other movements in Depreciation and Impairment	6,329	0	0	0	0	0	0	<b>6,329</b>
<b>At 31 March 2015</b>	<b>0</b>	<b>(650)</b>	<b>(3,138)</b>	<b>(13,066)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(16,854)</b>
<b>Net Book Value</b>								
<b>At 31 March 2015 Totals</b>	<b>125,023</b>	<b>14,118</b>	<b>1,838</b>	<b>12,441</b>	<b>3,461</b>	<b>259</b>	<b>1,376</b>	<b>158,516</b>
<b>At 1 April 2014 Totals</b>	<b>120,145</b>	<b>12,931</b>	<b>2,041</b>	<b>13,848</b>	<b>3,461</b>	<b>174</b>	<b>117</b>	<b>152,717</b>



Prior Year Comparators 2013/14	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant, furniture & Equipment £'000	Infra-structure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Const ruction £'000	Total Property, Plant and Equipment £'000
<b>Cost or Valuation</b>								
At 1 April 2013	<b>113,137</b>	<b>14,050</b>	<b>4,190</b>	<b>24,260</b>	<b>3,461</b>	<b>176</b>	<b>0</b>	<b>159,274</b>
Additions	2,765	45	484	464	0	0	117	<b>3,875</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	198	0	0	0	0	0	<b>198</b>
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	10,130	(2)	0	0	0	0	0	<b>10,128</b>
Assets reclassified (to)/from Held for Sale	(620)	0	0	0	0	0	0	<b>(620)</b>
Other reclassifications		2	(25)	25	0	(2)	0	<b>0</b>
Reversal of accumulated depreciation & impairment on revaluation	(5,267)	0	0	0	0	0	0	<b>(5,267)</b>
<b>At 31 March 2014</b>	<b>120,145</b>	<b>14,293</b>	<b>4,649</b>	<b>24,749</b>	<b>3,461</b>	<b>174</b>	<b>117</b>	<b>167,588</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2013	<b>0</b>	<b>(1,069)</b>	<b>(2,069)</b>	<b>(8,759)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(11,897)</b>
Depreciation charge	(2,502)	(293)	(539)	(2,142)	0	0	0	<b>(5,476)</b>
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(2,765)	0	0	0	0	0	0	<b>(2,765)</b>
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	<b>0</b>
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	<b>0</b>
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	<b>0</b>
Derecognition - Disposals	0	0	0	0	0	0	0	<b>0</b>
Derecognition - Other	0	0	0	0	0	0	0	<b>0</b>
Other movements in Depreciation and Impairment	5,267	0	0	0	0	0	0	<b>5,267</b>
<b>At 31 March 2014</b>	<b>0</b>	<b>(1,362)</b>	<b>(2,608)</b>	<b>(10,901)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(14,871)</b>
<b>At 31 March 2014 Totals</b>	<b>120,145</b>	<b>12,931</b>	<b>2,041</b>	<b>13,848</b>	<b>3,461</b>	<b>174</b>	<b>117</b>	<b>152,717</b>
<b>At 1 April 2013 Totals</b>	<b>113,137</b>	<b>12,981</b>	<b>2,121</b>	<b>15,501</b>	<b>3,461</b>	<b>176</b>	<b>0</b>	<b>147,377</b>

## Note 13.2: Revaluation of Property, Plant and Equipment, Council Dwellings

### Revaluations

The Authority carries out a programme of valuations for non-housing assets every five years, with Investment Assets valued annually; and where material changes to assets have occurred, an annual review takes place. All valuations were carried out by an external valuer. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

We are working in conjunction with our Valuers 'Taylor Riley Stafford' to co-ordinate a planned programme of Valuations, in order to ensure that the Carrying Value of our Assets does not differ materially from Fair Value. Subject to any assumptions that the 'Code' requires, Fair Value is the same as Market Value. Our valuer has prepared the valuations for our report based on the RICS (Royal Institute of Chartered Surveyors) 'Red Book' using IFRS 13 definition. In respect of Operational, Non Specialised Properties, including PPE Assets, the Fair Value has been interpreted as the amount that would be paid for the asset in its existing use. The Valuer has met this requirement on the basis of EUV (Existing Use Value) in accordance with UKVS1.3 in the RICS 'Red Book'.

### Council Dwellings

The Valuation on the Council dwellings is set at 32% of the open market value for these assets, and is based on their existing use (Social housing) values.

Taylor Riley have advised an increase of 7.37% in the valuation of the Council Dwellings and it is based on an appropriate rate for the local housing market regionally. This has increased the value of Housing Assets by approximately £9m, with increased capital expenditure of £3m. The total net value of Council Dwellings amounted to £125m as at 31 March 2015.

Garages, sheds and Parking spaces were revalued on the basis of rental yields and an increase of 1% was applied to the non-residential assets.

### Non-Housing Assets

Taylor Riley have indicated that local market values have remained stable over the past year and there has been no general change in market conditions and this is reflected in the Balance sheet value which is largely unchanged from the 2013/14 position for non housing assets, with the exception of £1m subsequent expenditure on the 3G Football pitch and new builds programme classified within Assets under Construction on the Balance Sheet. It is still a tenant led market with incentives being offered such as rent-free periods. Whilst lenders are still cautious, but continuing low interest rates has encouraged more activity.

## Note 13.3: Construction Contracts / Contractual Commitments

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

- Heating replacement programme from 2012-2016 - approximately £0.70m per annum
- Kitchen and bathroom replacement 2010-2020 - approximately £0.70m per annum
- Window/door servicing and maintenance 2015-2020 approximately £0.25m per annum

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

#### Note 14.1: Investment Properties CIES

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

	2013/14 £'000	2014/15 £'000
Rental income from investment property	71	92
Direct operating expenses arising from investment property	0	0
<b>Net gain/(loss) on financing and investment in CIES</b>	<b>71</b>	<b>92</b>

#### Note 14.2: Investment Properties CIES

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

	2013/14 £'000	2014/15 £'000
Balance at start of the year	4,307	1,332
Additions		
- Purchases	0	0
- Subsequent expenditure	19	0
Disposals	(3,011)	(40)
- Net gains / losses from the fair value adjustments	17	132
Transfers		
- to / from Property, Plant and Equipment	0	0
<b>Balance at end of the year</b>	<b>1,332</b>	<b>1,424</b>

## Note: 15 Intangible Assets

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licences and internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority.

The useful lives assigned to the major software suites used by the Authority are:

	Other Assets
5 years	All Software

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.86m charged to revenue in 2014/15 was charged across the council's administrative units, mainly ICT and then absorbed as an overhead across all the service headings in the Surplus/Deficit on Provision of Services. It is not possible to quantify exactly how much of this remaining amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows:

	2013/14		2014/15	
	Other Assets £'000	Total £'000	Other Assets £'000	Total £'000
<b>Balance at start of year:</b>				
· Gross carrying amounts	821	821	859	859
· Accumulated amortisation	(490)	(490)	(586)	(586)
<b>Net carrying amount at start of year</b>	<b>331</b>	<b>331</b>	<b>273</b>	<b>273</b>
Additions:				
· Internal development	0	0	0	0
· Purchases	38	38	75	75
Amortisation for the period	(96)	(96)	(86)	(86)
Other changes			0	0
<b>Net carrying amount at end of year</b>	<b>273</b>	<b>273</b>	<b>262</b>	<b>262</b>
<b>Comprising:</b>				
· Gross carrying amounts	859	859	934	934
· Accumulated amortisation	(586)	(586)	(672)	(672)
	<b>273</b>	<b>273</b>	<b>262</b>	<b>262</b>

## Note 16.1: Categories of Financial Instruments

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

	Long-term		Current		Note
	31 March	31 March	31 March	31 March	
	2014	2015	2014	2015	
	£'000	£'000	£'000	£'000	
<b>Investments</b>					
Loans and receivables	8,013	4	7,580	20,591	1
Available-for-Sale Financial Assets	0	3,128	0	43	2
<b>Total investments</b>	<b>8,013</b>	<b>3,132</b>	<b>7,580</b>	<b>20,634</b>	
<b>Debtors</b>					
Loans and receivables	0	0	1,650	2,026	1
Other long term debtors	1,180	1,998	3,104	4,464	
<b>Total Debtors</b>	<b>1,180</b>	<b>1,998</b>	<b>4,754</b>	<b>6,490</b>	
<b>Cash &amp; Cash equivalents</b>	<b>0</b>	<b>0</b>	<b>14,874</b>	<b>13,454</b>	
<b>Total Cash &amp; cash equivalents</b>	<b>0</b>	<b>0</b>	<b>14,874</b>	<b>13,454</b>	
<b>Other Long-term Liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
Finance Lease Liabilities	0	0	(48)	0	
<b>Total borrowings</b>	<b>0</b>	<b>0</b>	<b>(48)</b>	<b>0</b>	
<b>Creditors</b>					
Trade Creditors at amortised cost	0	0	(4,412)	(2,290)	
Financial liabilities at amortised cost	(61,751)	(59,504)	(1,262)	(2,946)	
Other Creditors	0	0	(4,327)	(5,558)	
<b>Total creditors</b>	<b>(61,751)</b>	<b>(59,504)</b>	<b>(10,001)</b>	<b>(10,794)</b>	
<b>Soft Loans (Loans at less than Market Rate)</b>					
<b>Soft Loans</b>					
Soft Loans	3,521	3,397	0	0	3
	<b>3,521</b>	<b>3,397</b>	<b>0</b>	<b>0</b>	

Note 1 - The Code requires the carrying amount of financial instruments to be included in the Balance Sheet. However, this inclusion will be in two separate parts. For long-term investments, the balance sheet carrying amount will be split to exclude accrued interest due in the next 12 months. This will be shown and separately identified in current assets. Short-term financial investments carrying amounts will be shown in current assets with accrued interest identified separately as above.

Note 2 - Available for Sale Financial assets are carried at fair value on the Balance Sheet in accordance with the CIPFA Code and IAS 39. Dividends are recognised in Financing and Investment Income & Expenditure as incurred. The Authority will accrue the dividends for the quarter ending 31 March that will be paid in April each year. An Available for Sale Reserve shows the gains or losses for the year in respect of the number of units held multiplied by its published 'bid' selling price.

Note 3 - Authorities will sometimes make loans at less than market rates, where a service objective would justify the Authority making a concession. Examples include Home Improvement Loans provided to owner occupiers and landlords. The Authority has a record of all soft loans issued and received and having calculated the value, has not applied the accounting convention that would require the difference being between the soft loan interest rate and market rates to be applied to the Comprehensive Income and Expenditure Accounts the amounts involved are outlined in disclosure note 16.2.

**Note 16.2: Material Soft Loans provided by the Authority:**

Home improvement loans provided to owner/occupiers and landlords as part of the Authority's Private Housing Assistance Policy.

**Valuation Assumptions** : The interest rate at which the fair value of the soft loans has been provided by applying the Authority's prevailing rate of the cost of borrowing for ten year loans.

	2013/14 £'000	2014/15 £'000
<b>Balance at 1 April 2014</b>	<b>3,459</b>	<b>3,521</b>
Nominal value of new loans granted in the year	0	0
Fair value adjustment on initial recognition	0	0
Loans repaid	(63)	(268)
Impairment losses	0	0
Increase in discounted amount	149	144
Other changes	(24)	0
<b>Balance at 31 March 2015</b>	<b>3,521</b>	<b>3,397</b>

**Note 16.3: Income, Expenses, Gains & Losses on Financial Instruments:**

	2013/14			2014/15			
	Financial Liabilities measure at amortised cost	Financial Assets, Loans and Receivables	Total	Financial Liabilities measure at amortised cost	Available for Sale Financial Assets	Loans and Receivables	Total
	£'000	£'000	£'000	£'000		£'000	£'000
Interest income	2,319	0	2,319	2,363	0	0	2,363
(Gains)/Losses on derecognition	0	0	0	0	0	0	0
Impairment losses	0	49	49	0	0	0	0
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>2,319</b>	<b>49</b>	<b>2,368</b>	<b>2,363</b>	<b>0</b>	<b>0</b>	<b>2,363</b>
Interest income	0	(421)	(421)	0	(159)	(482)	(641)
Fee income	0	(71)	(71)	0	0	(93)	(93)
<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>0</b>	<b>(492)</b>	<b>(492)</b>	<b>0</b>	<b>(159)</b>	<b>(575)</b>	<b>(734)</b>
<b>Net gain/(loss) for the year</b>	<b>2,319</b>	<b>(443)</b>	<b>1,876</b>	<b>2,363</b>	<b>(159)</b>	<b>(575)</b>	<b>1,629</b>

**Note 16.4: Fair Values of Assets and Liabilities**

Financial liabilities, financial assets represented by loans and receivables, available for sale assets and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- For loans and receivables the prevailing benchmark market rates have been used to provide the fair value.
- Loans from the Public Works Loan Board (PWL) and other loans payable, premature repayment rates from the PWLB have been applied to provide fair value under the PWLB debt redemption procedures.
- For available for sale assets the 'bid' price (the price that a dealer would be willing to pay for an instrument) has been used.
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value

**Note 16.4: Fair Values of Assets and Liabilities / cont...**

Liabilities	31 March 2014		31 March 2015	
	£'000		£'000	
	Carrying amount £'000	Fair Value £'000	Carrying amount £'000	Fair Value £'000
Financial liabilities short term	1,262	1,262	2,946	2,835
Financial liabilities long term	61,751	67,015	59,504	74,722
Current creditors	8,787	8,787	7,848	7,895
Long-term creditors	0	0	0	0

Assets	31 March 2014		31 March 2015	
	£'000		£'000	
	Carrying amount £'000	Fair Value £'000	Carrying amount £'000	Fair Value £'000
Loans and receivables	15,593	15,588	20,595	20,595
Available for sale assets	0	0	3,128	3,128
Current Debtors	3,104	3,104	4,507	4,507
Long-term Debtors	1,180	1,180	1,998	1,998

The fair values for loans and receivables have been determined by reference to similar practices which provide a reasonable approximation for the fair value of a financial instrument and include accrued interest (shown in debtors). The comparator market rates prevailing have been taken from indicative investment rates at each balance sheet date. In practice rates will be determined by the size of the transaction and the counter party, but it is impractical to use these figures and the difference is likely to be immaterial.

The Code requires the carrying amount of financial instruments to be included in the Balance Sheet. However, this inclusion will be in two separate parts. For long-term investments, the balance sheet carrying amount will be split to exclude accrued interest due in the next 12 months. This will be shown and separately identified in current assets. Short-term financial investments carrying amounts will be shown in current assets with accrued interest identified separately as above.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value. Available for sale assets have been valued at fair value through profit or loss and are carried in the Balance Sheet at their fair value. These fair values are based on selling price ('bid' price) quotations where there is an active market for the instrument. An exception to this treatment is as follows: Where impairment losses have been incurred or when the asset is derecognised.

## Note 17 : Short Term Debtors

	31 March 2014 £'000	31 March 2015 £'000
<b>Short Term Debtors</b>		
Central Government bodies	2,488	1,601
Other Local Authorities	214	170
Other entities and individuals	3,572	6,070
<b>Total Short Term Debtors</b>	<b>6,274</b>	<b>7,841</b>

## Note 18: Cash and Cash Equivalents

The balance of Cash and Cash equivalents is made up of the following elements:

	31 March 2014 £'000	31 March 2015 £'000
Bank current accounts	7,855	615
Cash Equivalents - Money Market Funds	7,019	15,194
Cash Equivalents - Other	0	(2,355)
<b>Total Cash and Cash Equivalents</b>	<b>14,874</b>	<b>13,454</b>

## Note 19: Assets Held for Sale

The balance of Current Assets Held for Sale at the beginning and close of the year was as follows:

	31 March 2014 £'000	31 March 2015 £'000
<b>Current Assets Held for Sale</b>		
<b>Balance as at 1 April</b>	<b>210</b>	<b>331</b>
Assets newly classified as 'Held for Sale':		
- Property, Plant and Equipment	620	561
- Revaluation gains	205	125
- Assets sold	(704)	(969)
<b>Balance as at 31 March</b>	<b>331</b>	<b>48</b>



**Note 20: Creditors**

	31 March 2014 £'000	31 March 2015 £'000
<b>Short Term Creditors</b>		
Central Government Bodies	1,979	3,698
Other Local Authorities	1,729	3,954
Other Entities and Individuals	6,454	4,737
<b>Total Short Term Creditors</b>	<b>10,162</b>	<b>12,389</b>

**Note 21: Provisions**

Non-current Provisions	MMI Scheme of Arrangement £'000	Personal Search Refund Claims £'000	Business Rate Appeals £'000	Total £'000
<b>Balance at 1 April 2014</b>	<b>0</b>	<b>76</b>	<b>0</b>	<b>76</b>
Provisions transferred in 2014/15	0	0	595	595
<b>Balance at 31 March 2015</b>	<b>0</b>	<b>76</b>	<b>595</b>	<b>671</b>

Current Provisions	MMI Scheme of Arrangement £'000	Land Search claims	Business Rate Appeals £'000	Total £'000
<b>Balance at 1 April 2014</b>	<b>63</b>	<b>0</b>	<b>595</b>	<b>658</b>
Utilised 2014/15	0	0	447	447
Transfers to Non-current Provisions	0	0	(595)	(595)
<b>Balance at 31 March 2015</b>	<b>63</b>	<b>0</b>	<b>447</b>	<b>510</b>

1. The MMI short term provision of £0.063m relates to a scheme of arrangement (Municipal Mutual Insurance) who went into administration in the early 1990's. The Authority 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 asbestosis claims would fall on the insurer at the time of the employees exposure. The decision now affects MMI's ability to arrive at a solvent 'run-off'. It appears likely that the call on the Authority's contribution will be required by an initial levy rate of 15% has been set. However the levy remains subject to change. There have been no payments made since 2013/14.

2. Personal search claims of £0.076m were settled in 2013/14. There were no material claims received in 2014/15.

3. Business Rates (NNDR) Appeals - Business Rate Retention was introduced in 2013/14. Previously we were a collecting Agent for the Government on behalf of collection of business rates. As this now affects our preceptors such as the Government and County Council, we have to recognise a provision for appeals, with applicable shares to the Department for Communities and Local Government (DCLG), Kent County Council (KCC) and Kent Fire & Rescue services (KFRS).

## Note 22: Usable Reserves

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and Note 8 (Adjustments between accounting and funding basis).

Reserve		Opening Balance 01/04/2014 £'000	2014/15 Movement £'000	Closing Balance 31/03/2015 £'000
General Fund	Resources available to meet future running costs for Non-HRA services	5,498	148	5,646
HRA	Housing Revenue Account Reserve	2,881	1,371	4,252
MRR	Major Repairs Reserve	155	903	1,058
Earmarked Reserves	Specific resources held against earmarked expenditure.	8,755	1,055	9,810
Capital Grants Unapplied	Capital resource available to finance capital expenditure when incurred	953	(205)	748
Capital Receipts Reserve	Proceeds of fixed assets sales that can only be used to fund capital expenditure.	6,347	484	6,831
<b>Total Usable Reserves</b>		<b>24,589</b>	<b>3,756</b>	<b>28,345</b>

## Note 23: Unusable Reserves

2013/14 £'000		Note	2014/15 £'000
3,220	Revaluation Reserve	23.1	4,700
	Available for Sale Financial Instruments Reserve	23.2	128
94,926	Capital Adjustment Account	23.3	100,906
(758)	Financial Instruments Adjustment Account	23.4	(570)
173	Deferred Capital Receipts Reserve	23.5	168
(53,280)	Pensions Reserve	23.6	(66,493)
71	Collection Fund Adjustment Account	23.7	958
(301)	Accumulating Compensated Absences Adjustment	23.8	(306)
<b>44,051</b>	<b>Total Unusable Reserves</b>		<b>39,491</b>

### Note 23.1: Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment (and Intangible Assets). The balance is reduced when assets with accumulated gains are:

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

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

2013/14 £'000		2014/15 £'000
<b>6,026</b>	<b>Balance at 1 April</b>	<b>3,220</b>
200	Upward revaluation of assets	1,635
(2,906)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(155)
<b>(2,706)</b>	<b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>	<b>1,480</b>
(100)	Difference between fair value depreciation and historical cost depreciation	0
0	Accumulated gains on assets sold or scrapped	0
<b>(100)</b>	<b>Amount written off to the Capital Adjustment Account</b>	<b>0</b>
<b>3,220</b>	<b>Balance at 31 March</b>	<b>4,700</b>

### Note 23.2 : Available for Sale Financial Instruments Reserves

The Available for Sale Financial Instrument Reserve contains the gains made by the Authority arising from the decreases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or are impaired and the gains are lost
- disposed of and the gains are realised

2013/14 £'000		2014/15 £'000
0	<b>Balance at 1 April 2014</b>	0
0	Upward revaluation of investments	128
0	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	0
<b>0</b>	<b>Subtotal</b>	<b>128</b>
0	Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	0
<b>0</b>	<b>Balance at 31 March 2015</b>	<b>128</b>

### Note 23.3: 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 Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on Donated Assets that have yet to be consumed by the Authority.

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.

Note 7 provides details of the source of all transactions posted to the Account, apart from those involving the Revaluation Reserve.

2013/14 £'000		2014/15 £'000
<b>84,952</b>	Balance at 1 April	<b>94,926</b>
(8,242)	Charges for depreciation and impairment of non current assets	(9,588)
10,330	Revaluation losses on Property, Plant and Equipment	9,223
(97)	Amortisation of intangible assets	(86)
(1,059)	Revenue expenditure funded from capital under statute	(1,900)
(3,715)	Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,029)
(84)	Capital debtors written down	(336)
<b>(2,867)</b>		<b>(3,716)</b>
3,005	Adjusting amounts written out of the Revaluation Reserve	155
<b>138</b>	<b>Net written out amount of the cost of non current assets consumed in the year</b>	<b>(3,561)</b>
	<b>Capital financing applied in the year:</b>	
740	Use of the Capital Receipts Reserve to finance new capital expenditure	1,001
2,891	Use of the Major Repairs Reserve to finance new capital expenditure	2,981
883	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	2,390
313	Application of grants to capital financing from the Capital Grants Unapplied Account	448
4,364	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	1,480
625	Capital expenditure charged against the General Fund and HRA Balances	1,109
<b>9,816</b>		<b>9,409</b>
20	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	132
0	Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement	0
<b>94,926</b>	<b>Balance at 31 March</b>	<b>100,906</b>

#### Note 23.4: Financial Instruments Adjustment Account

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

2013/14 £'000		2014/15 £'000
<b>(920)</b>	<b>Balance at 1 April</b>	<b>(758)</b>
16	Renovation advances - fair value adjustment	0
21	Repaid renovations advances	68
149	Amortised interest on renovation advances	144
(24)	Net write down deferred discounts to revenue	(24)
<b>(758)</b>	<b>Balance at 31 March</b>	<b>(570)</b>

#### Note 23.5 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.

2013/14 £'000		2014/15 £'000
<b>177</b>	<b>Balance at 1 April</b>	<b>173</b>
(4)	Transfer of deferred sale proceeds in respect of finance leases where the council is a lessor	(5)
0	Gain on sale of assets	0
<b>173</b>	<b>Balance at 31 March</b>	<b>168</b>

#### Note 23.6: 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 Authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority 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.

2013/14 £'000		2014/15 £'000
<b>(47,028)</b>	<b>Balance at 1 April</b>	<b>(53,280)</b>
(4,411)	Actuarial (gains) or losses on pensions assets and liabilities	(11,535)
(4,390)	Reversal of items relating to retirement benefits debited or credited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income	(4,605)
2,549	Employer's pensions contributions and direct payments to pensioners payable in the year	2,927
<b>(53,280)</b>	<b>Balance at 31 March</b>	<b>(66,493)</b>

### Note 23.7: Collection Fund Adjustment Account

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

2013/14 £'000		2014/15 £'000
<b>101</b>	<b>Balance at 1 April</b>	<b>71</b>
235	Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	316
(265)	Amount by which Business Rates income credited to the Comprehensive Income and Expenditure Statement is different from Business Rate income calculated for the year in accordance with statutory requirements	571
<b>71</b>	<b>Balance at 31 March</b>	<b>958</b>

### Note 23.8 : 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, eg 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.

2013/14 £'000		2014/15 £'000
<b>(293)</b>	<b>Balance at 1 April</b>	<b>(301)</b>
293	Settlement or cancellation of accrual made at the end of the preceding year	301
<b>(301)</b>	<b>Amounts accrued at the end of the current year</b>	<b>(306)</b>
(8)	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	(5)
<b>(301)</b>	<b>Balance at 31 March</b>	<b>(306)</b>

**Note 24: Cash Flow - Operating Activities**

The cash flows for operating activities include the following items:

2013/14 £'000		2014/15 £'000
575	Interest received	522
(2,267)	Interest paid	(2,326)
0	Dividends received	(159)
<b>2013/14 £'000</b>		<b>2014/15 £'000</b>
5,477	Depreciation	6,712
(7,564)	Impairment and downward revaluations	(6,492)
97	Amortisation	86
1,067	Increase/(decrease) in creditors	(499)
445	Increase/(decrease) in debtors	(1,142)
3	Increase/(decrease) in inventories	(1)
1,841	Movement in pension liability	1,678
3,715	Movement in Investment Property Values	1,029
207	Other	51
<b>5,288</b>	<b>Adjustment to net surplus/deficit on provision of Services from Non-cash movements</b>	<b>1,422</b>

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:-

2013/14 £'000		2014/15 £'000
(875)	Capital Grants credited to Surplus deficit on provision of services	(2,635)
(3,162)	Proceeds from the Sale of PPE, investment property & intangibles	(1,324)
<b>(4,037)</b>	<b>Adjustments for items included in the Net surplus/deficit on provision of Services - Investing &amp; Financing activities</b>	<b>(3,959)</b>

**Note 25: Cash Flow - Investing Activities**

2013/14 £'000		2014/15 £'000
3,742	Purchase of property, plant and equipment, investment property and intangible assets	(5,633)
18,500	Purchase of Investments	(15,500)
960	Proceeds from sale of property, plant and equipment	1,329
(3,166)	Other payments for investing activities	(800)
(18,000)	Proceeds from short-term and long-term investments	7,508
(574)	Other receipts from investing activities	2,665
<b>1,462</b>	<b>Net cash flows from Investing Activities</b>	<b>(10,431)</b>

**Note 26: Cash Flow - Financing Activities**

2013/14 £'000		2014/15 £'000
(800)	Cash receipts from borrowing	400
44	Cash payments for the reduction of the outstanding liabilities relating to finance leases	(48)
2,899	Repayments of short term borrowing	(1,000)
(2,189)	Other payments from financing activities	3,074
<b>(46)</b>	<b>Net cash flows from financing activities</b>	<b>2,426</b>

## Note 27.1: Amounts Reported for Resource Allocations

The Code requires that Authorities analyse the financial performance of their operating segments in the Comprehensive Income and Expenditure Statement using the service analysis included in the Service Reporting Code of Practice (SERCOP). The intention is to secure consistency of reporting across all Authorities. However the Code has adopted provisions of IFRS 8 Operating segments which require disclosure notes on the basis of the Authority's Portfolios (Business Teams) to be recorded in line with the budget reports for the year.

Decisions about resource allocations are taken by the Cabinet and reported during the year in the 'Performance Monitoring by Heads of Service' format with a separate report for the Housing Revenue Account.

This note shows the Comprehensive Income and Expenditure Statement reported in the Heads of Service areas format, analysed by income and expenditure based on subjective groupings, plus the Housing Revenue Account.

	Management Team, Finance and Administration £'000	Policy, Strategy and Planning £'000	Communities & Assets £'000	Customer contact £'000	Housing Revenue Account £'000	Total £'000
<b>2014/15 Service Income and Expenditure</b>						
Government Grants	0	(5)	(42,817)	(6)	0	(42,828)
Fees, charges & other service income	(2,175)	(2,964)	(1,476)	(3,014)	(15,968)	(25,597)
<b>Total Income</b>	<b>(2,175)</b>	<b>(2,969)</b>	<b>(44,293)</b>	<b>(3,020)</b>	<b>(15,968)</b>	<b>(68,425)</b>
Employee expenses	280	287	1,801	0	0	2,368
Other operating expenses	4,697	1,437	42,976	2,157	6,401	57,668
Service Management, Administration and support	1,313	4,814	3,943	3,752	789	14,611
<b>Total Expenditure</b>	<b>6,290</b>	<b>6,538</b>	<b>48,720</b>	<b>5,909</b>	<b>7,190</b>	<b>74,647</b>
<b>Net Expenditure</b>	<b>4,115</b>	<b>3,569</b>	<b>4,427</b>	<b>2,889</b>	<b>(8,778)</b>	<b>6,222</b>
<b>2013/14 Service Income and Expenditure</b>						
Government Grants	0	(30)	(43,167)	(493)	0	(43,690)
Fees, charges & other service income	(1,838)	(1,771)	(2,267)	(2,743)	(15,636)	(24,255)
<b>Total Income</b>	<b>(1,838)</b>	<b>(1,801)</b>	<b>(45,434)</b>	<b>(3,236)</b>	<b>(15,636)</b>	<b>(67,945)</b>
Employee expenses	338	45	103	414	0	900
Other operating expenses	4,608	6,048	42,485	2,986	9,099	65,226
Service Management, Administration and support	1,826	2,648	4,220	3,178	640	12,512
<b>Total Expenditure</b>	<b>6,772</b>	<b>8,741</b>	<b>46,808</b>	<b>6,578</b>	<b>9,739</b>	<b>78,638</b>
<b>Net Expenditure</b>	<b>4,934</b>	<b>6,940</b>	<b>1,374</b>	<b>3,342</b>	<b>(5,897)</b>	<b>10,693</b>



**Note 27.2 : Reconciliation of Service Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement**

This reconciliation shows how the figures in the analysis of service income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2013/14 £'000	2014/15 £'000
Net Expenditure in the Service Analysis	10,693	6,222
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(7,693)	73
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(4)	(13)
<b>Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>2,996</b>	<b>6,282</b>

### Note 27.3 : Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of service income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2014/15	Service Analysis £'000	Amounts not reported to management for decision making £'000	Amounts not included in CIES £'000	Allocation of Recharges £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges & other service income	(24,505)	(1,874)	52	(878)	(27,205)	(2,232)	(29,437)
Government grants and contributions	(42,828)	(581)	0	(23)	(43,432)	(7,154)	(50,586)
Service management & support	(1,092)	0	191	901	0	0	0
Interest and investment income	0	0	0	0	0	(866)	(866)
Income from NNDR	0	0	0	0	0	(10,135)	(10,135)
Income from council tax	0	0	0	0	0	(10,842)	(10,842)
Gain or loss on disposal of Fixed Assets	0	0	0	0	0	(1,325)	(1,325)
<b>Total Income</b>	<b>(68,425)</b>	<b>(2,455)</b>	<b>243</b>	<b>0</b>	<b>(70,637)</b>	<b>(32,554)</b>	<b>(103,191)</b>
Employee expenses	2,368	(11)	(55)	10,035	12,337	55	12,392
Other service expenses	57,668	2,820	(201)	3,967	64,254	239	64,493
Depreciation, amortisation and impairment Service Management, Administration and Support	0	8,975	0	446	9,421	0	9,421
Interest Payments	14,611	(163)	0	(14,448)	0	0	0
HRA self Financing	0	0	0	0	0	6,559	6,559
Precepts, Levies & Tariffs	0	(9,093)	0	0	(9,093)	0	(9,093)
Payments Housing Capital Receipts Pool	0	0	0	0	0	9,032	9,032
Gain or loss on disposal of Fixed Assets	0	0	0	0	0	195	195
<b>Total expenditure</b>	<b>74,647</b>	<b>2,528</b>	<b>(256)</b>	<b>0</b>	<b>76,919</b>	<b>17,149</b>	<b>94,068</b>
<b>Surplus or deficit on the provision of services</b>	<b>6,222</b>	<b>73</b>	<b>(13)</b>	<b>0</b>	<b>6,282</b>	<b>(15,405)</b>	<b>(9,123)</b>

2013/14	Service Analysis £'000	Amounts not reported to management for decision making £'000	Amounts not included in CIES £'000	Allocation of Recharges £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges & other service income	(24,256)	(231)	296	(820)	(25,011)	(1,962)	(26,973)
Government grants and contributions	(43,689)	0	0	(23)	(43,712)	(7,070)	(50,782)
Service management & support	0	(843)	0	843	0	0	0
Interest and Investment Income	0	0	0	0	0	(512)	(512)
Income from council tax & NNDR	0	0	0	0	0	(20,425)	(20,425)
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	0	(3,253)	(3,253)
<b>Total Income</b>	<b>(67,945)</b>	<b>(1,074)</b>	<b>296</b>	<b>0</b>	<b>(68,723)</b>	<b>(33,222)</b>	<b>(101,945)</b>
Employee expenses	900	(13)	(72)	11,613	12,428	72	12,500
Other service expenses	60,063	233	(228)	1,212	61,280	16	61,296
Depreciation, amortisation and impairment	5,163	2,564	0	411	8,138	0	8,138
Service Management, Administration and Support	12,512	724	0	(13,236)	0	0	0
Interest Payments	0	0	0	0	0	6218	6,218
HRA self Financing	0	(10,127)	0	0	(10,127)	0	(10,127)
Precepts, Levies & Tariffs	0	0	0	0	0	8925	8,925
Payments Housing Capital Receipts Pool	0	0	0	0	0	178	178
Gain or loss on disposal of Fixed Assets	0	0	0	0	0	3,799	3,799
<b>Total expenditure</b>	<b>78,638</b>	<b>(6,619)</b>	<b>(300)</b>	<b>0</b>	<b>71,719</b>	<b>19,208</b>	<b>90,927</b>
<b>Surplus or deficit on the provision of services</b>	<b>10,693</b>	<b>(7,693)</b>	<b>(4)</b>	<b>0</b>	<b>2,996</b>	<b>(14,014)</b>	<b>(11,018)</b>

## Note 28: Trading Operations

The Authority has entered into a 5 year partnership with Dover District Council from April 2009 to operate Dover's Whitecliffs Careline service. Any surplus is shared between Shepway and Dover District Councils. Although 2013/14 was the final year of the Partnership, there has been an extension for a further 9 months and the trading results are as follows for the Dover Whitecliffs Careline Service:

	2013/14 £'000	2014/15 £'000
Income	(80)	(36)
Expenditure	88	65
<b>Surplus</b>	8	29
Dover District Council - share of surplus	(4)	(15)
<b>(Surplus)/Deficit to Comprehensive Income and Expenditure Statement *</b>	4	15

\* This is included within the Financing and Investment Income & Expenditure Statement line in the Comprehensive Income & Expenditure Statement (CIES).

The Authority also operates its own lifeline service, providing community alarm and telecare services to vulnerable people living independently in the community. The lifeline service is regarded as integral to the Authority's services rather than having a prime objective of achieving commercial gains. Accordingly, its income and expenses are included within Other Housing Services in the Surplus on Continuing Operations, rather than being shown separately within the Financing and Investment Income & Expenditure line as a trading operation.

## Note 29: Agency Services - On Street Parking

The Authority operates, under an Agency Agreement with Kent County Council, On Street Parking Services. Any deficits will be met from the General Fund. The Income and Expenditure is as follows:

	2013/14 £000's	2014/15 £000's
Income	(487)	(516)
Expenditure	656	664
<b>Deficit</b>	169	148

## Note 30: Members Allowances

The Authority paid the following amounts to Members of the Authority during the year.

	2013/14 £'000	2014/15 £'000
Salaries	0	0
Allowances	326	321
Expenses	12	14
<b>Total</b>	338	335

## Note 31.1: Officers' Remuneration

The remuneration paid to the Authority's senior employees is as follows:

Post Holder Information		Salary, Fees and Allowances	Bonuses	Expense Allowances	Compensation for Loss of Office	Total Remuneration excluding pension contributions	Pension Contribution	Total
		£	£	£	£	£	£	£
Chief Executive	2014/15	116,677	0	0	0	116,677	13,811	130,488
	2013/14	112,696	0	0	0	112,696	13,917	126,613
Deputy Chief Executive/Chief Finance Officer (1)	2014/15	45,790	0	0	0	45,790	3,839	49,629
	2013/14	93,666	0	0	0	93,666	11,506	105,172
Corporate Director - Economic Regeneration	2014/15	94,002	0	0	0	94,002	11,410	105,412
	2013/14	45,585	0	0	0	45,585	5,563	51,148
Director of Policy & Strategic Initiatives	2014/15	80,851	0	0	0	80,851	9,741	90,592
	2013/14	70,440	0	0	0	70,440	2,179	72,619
Head of Administration (effective from 5/1/15)	2014/15	16,866	0	0	0	16,866	2,061	18,927
	2013/14	64,905	0	0	34,206	99,111	156,138	255,249
Solicitor to the Council (2)	2014/15	85,239	0	0	0	85,239	10,274	95,513
	2013/14	21,803	0	0	0	21,803	2,659	24,462
Head of Finance (3)	2014/15	60,751	0	0	0	60,751	7,385	68,136
	2013/14	61,328	0	0	0	61,328	7,479	68,807
Head of Planning	2014/15	70,494	0	0	0	70,494	8,614	79,108
	2013/14	70,440	0	0	0	70,440	8,660	79,100
Head of Customer Services (4)	2014/15	35,692	0	0	0	35,692	1,818	37,510
	2013/14	70,440	0	0	0	70,440	8,660	79,100
Head of HR	2014/15	57,553	0	0	0	57,553	6,957	64,510
	2013/14	56,442	0	0	0	56,442	6,870	63,312
Head of Economic Development (effective from 1/1/2015)	2014/15	15,137	0	0	0	15,137	1,830	16,967
	2013/14	0	0	0	0	0	0	0
Head of Housing, Land and Property	2014/15	70,494	0	0	0	70,494	8,614	79,108
	2013/14	70,440	0	0	0	70,440	8,660	79,100
Head of Strategic Projects (effective from 1/1/2015)	2014/15	12,372	0	0	0	12,372	1,498	13,870
	2013/14	0	0	0	0	0	0	0
<b>Total</b>	2014/15	761,918	0	0	0	761,918	87,852	849,770
	2013/14	738,185	0	0	34,206	772,391	232,291	1,004,682

### Notes:

(1) - The Deputy Chief Executive left the Authority on the 31/7/2014. The Chief Finance Officer was appointed on the 1/8/14 and was paid £4,000 for his duties as the Section 151 Officer during 2014/15.

(2) - The Solicitor to the Council left the Authority on the 4/1/2015.

(3) - The Head of Finance left the Authority on the 5/9/2014 and was replaced on the 1/10/2014.

(4) - The Head of Customer Services left the Authority on the 16/6/2014.

A number of Officers leaving and replacements joining the Authority occurred during 2014/15 - these amounts have been combined to give a total Full time equivalent.

### Note 31.2: Remuneration Bands

The Authority's employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration band	2013/14	2015/15
	Number of employees	Number of employees
	Total	Total
£50,000 - £54,999	9	11
£55,000 - £59,999	4	4
£60,000 - £64,999	1	0
£65,000 - £69,999	0	0
£70,000 - £74,999	4	2
£75,000 - £79,999	0	0
£80,000 - £84,999	0	1
£85,000 - £89,999	0	0
£90,000 - £94,999	1	1
£95,000 - £99,999	1	0
£100,000 - £104,999	0	0
£105,000 - £109,999	0	0
£110,000 - £114,999	1	1
<b>TOTAL</b>	<b>21</b>	<b>20</b>

### Note 31.3: Exit Packages

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		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14 £	2014/15 £
£0 - £20,000	7	6	4	3	11	9	85,332	89,574
£20,001 - £40,000	1	0	0	1	1	1	27,367	20,810
£40,001 - £60,000	0	0	2	1	2	1	94,596	58,674
£60,001 - £80,000	1	0	2	1	3	1	206,909	78,061
£80,001 - £100,000	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	0	0	0	0	0
<b>Total cost included in the bandings &amp; in the CIES</b>	<b>9</b>	<b>6</b>	<b>8</b>	<b>6</b>	<b>17</b>	<b>12</b>	<b>414,204</b>	<b>247,119</b>

### Note 32: External Audit Costs

The Authority 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 Authority's external auditors - Grant Thornton.

	2013/14 £'000	2014/15 £'000
Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor for the year	70	81
Fees payable to Grant Thornton for the certification of grant claims and returns for the Refund of Fees from the Audit Commission	22 0	17 (8)
<b>Total</b>	<b>92</b>	<b>90</b>

### Note 33.1: Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2014/15:

<b>Credited to Taxation and Non Specific Grant Income</b>	2013/14 £'000	2014/15 £'000
Revenue Support Grant	4,901	3,829
New Homes Bonus	1,037	1,301
New Burdens Grant	0	91
Council Tax Discount Family Annexes	0	22
Transparency Grant	0	6
Capitalisation Grant	0	0
Flood Relief Grant	0	15
Small Business Rate Relief Grant (SBRR)	491	546
Business Rates Retention tax loss reimbursements excluding SBRR	0	256
Non Ring-fenced Government Grant	44	35
Community right to challenge	9	9
Community right to buy	7	7
DEL Contingency	5	5
Capital Grants and Contributions	477	442
<b>Sub Total</b>	<b>6,971</b>	<b>6,564</b>
Council Tax Freeze Grant	99	98
<b>Sub Total</b>	<b>7,070</b>	<b>6,662</b>

<b>Credited to Services</b>	2013/14 £'000	2014/15 £'000
Housing Benefit Rent Allowance subsidy	32,286	31,750
Kent County Council service related grants	1,635	1,717
Discretionary Housing Payments	142	247
Localisation of CTSS grant	250	164
Housing Benefit Specific Grant	0	31
Housing Benefit Rent Rebate subsidy	9,663	9,893
Housing Benefit Admin Grant	230	592
Disabled Facilities Grants	504	506
Council Tax Government Grant-Cost of Collection Allowance	153	152
Other Grants	636	557
<b>Total</b>	<b>45,499</b>	<b>45,609</b>

### Note 33.2: Capital Grants

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the donor. The balances at the year-end are as follows:

<b>Current Liabilities</b>	<b>31 March 2014</b>	<b>31 March 2015</b>
<b>Grants Receipts in Advance-Capital Grants</b> s106 (Developer infrastructure) contributions	100	199
<b>Total</b>	<b>100</b>	<b>199</b>

<b>Long Term Liabilities</b>	<b>31 March 2014 £'000</b>	<b>31 March 2015 £'000</b>
<b>Grants Receipts in Advance-Capital Grants</b> - grants received from government departments	177	170
<b>Total</b>	<b>177</b>	<b>170</b>

### Note 34: Related Parties

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority 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 Authority.

#### Central Government

The UK Central government exerts significant influence over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (eg council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 27 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2015 are shown in Note 33.



## Note 34: Related Parties cont....

### Members/Officers

Members of the Council have direct control over the Authority's financial and operating policies. The total of members' allowances paid in 2014/15 is shown in Note 30. Members received a schedule of SDC grant funded bodies, in excess of £5,000, and confirmed or otherwise that they or any close member of their family held no positions of influence over the awarding of these grants. For other Authorities or entities, a de-minimus level has been set for related party disclosures. Those companies, along with their transactions paid to or from the Authority are outlined in the table below. Officers are required to observe the Code of Conduct for Officers and register the receipt of gifts and hospitality. The Council had no related party transactions with Officers during 2014/15.

### Trust Accounts

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, 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 Disclosure Note 40 on Page 90.

Related party transactions with the precepting bodies and the pension fund are disclosed on page 91, Page 95 and in note 37, page 84 respectively within the Statement of Accounts.

### Related Party Transactions

Related Parties - Entities, Local Authorities and organisations	2013/14	2014/15
	£'000	£'000
Amounts due to Central Government	1,891	3,572
Amounts due to Kent County Council	468	2,097
Amounts due from Central Government	2,061	1,601
Amounts due from Kent County Council	140	19
East Kent Housing Ltd (Amounts paid re Management fees)	1,848	1,894
East Kent Housing Ltd (Amounts received from EKH Ltd re Services)	(193)	(193)
East Kent Housing Ltd (Amounts due to SDC)	9	10
Oportunitas Ltd - Loans with the Authority	0	800
Step Short Charitable Trust	200	0
Amounts due to Folkestone Parks Charity	248	248
Amounts due from Folkestone Parks Charity	11	11
<b>Total</b>	<b>6,683</b>	<b>10,059</b>

### Related Parties - Interests in other Entities and Authorities:

#### East Kent Housing Ltd

The Council is joint owner of East Kent Housing Ltd, an Arms length Management Organisation (ALMO), owning 25% share of the company between three other Kent Local Authorities. The first year of operation was 2011/12. Payment of £1,848,367 was made in 2013/14 to East Kent Housing in respect of management fees and the council received £193,407 from East Kent Housing in respect of services supplied to it. Balances due to/from East Kent Housing at 31<sup>st</sup> March 2014 are £9,000 and £67 respectively. See Note 41 'Disclosures in other companies and Entities for more details).

#### Oportunitas Ltd

During 2014/15, the Authority has acquired a wholly owned subsidiary company called 'Oportunitas Ltd' for the purpose of new Housing and Regeneration initiatives and has prepared Group Accounts in accordance with International Financial Reporting Standard 10 (Consolidation of Financial Statements). These are consolidated into the Financial Statements and included within the Group Accounts on Page 109. The loans of £800K in the above table are represented by Assets of £703K and the balance is working capital.

#### East Kent Spatial Development Company Ltd

The Council also has an interest and 10% voting rights in East Kent Spatial Development Company Ltd along with four other Local Authorities and 2 organisations. They are a company limited by guarantee and their Accounts for 2013/14 show related party transactions with Canterbury CC and HCA but there were no transactions recorded for the year 2013/14 with Shepway DC and none recorded in the ledgers for 2014/15.

Amounts due to or from those other parties able to control or influence the Authority or to be controlled/influenced by the Authority are outlined in the above table and disclosed in Note 42 - Disclosure of Interests in other Entities and Authorities.

## Note 35: 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 Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

	2013/14 £'000	2014/15 £'000
<b>Opening Capital Financing Requirement</b>	<b>65,757</b>	<b>61,893</b>
<b>Capital investment</b>		
Property, Plant and Equipment	3,876	5,234
Loans to Subsidiary	0	720
Investment Properties	19	0
Intangible Assets	38	75
Local Authority Mortgage Scheme	1,000	0
Revenue Expenditure Funded from Capital under Statute	1,019	1,900
<b>Sources of finance</b>		
Capital receipts	(740)	(1,001)
Government grants and other contributions	(1,196)	(2,838)
Sums set aside from revenue:		
• Direct Revenue contributions	(3,516)	(4,090)
• Revenue Provision for debt (MRP)	(4,364)	(1,480)
<b>Closing Capital Financing Requirement</b>	<b>61,893</b>	<b>60,413</b>
<b>Explanation of movements in year</b>		
Increase in underlying need to borrowing (supported by government financial assistance)	0	0
Increase in underlying need to borrowing (unsupported by government financial assistance)	500	(307)
Revenue Provision for debt repayment	(4,364)	(1,480)
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>(3,864)</b>	<b>(1,787)</b>

## Note 36: Impairment Losses

The Code (paragraph 4.7.4.2(1) requires 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 the 'Other Comprehensive Income and Expenditure'. These disclosures are consolidated in Notes 13 to 15 reconciling the movement over the year in Property, Plant & Equipment and Intangible Asset balances.

During 2014/15 the council has recognised an impairment of council dwellings amounting to £2.876m (£2.766m in 2013/14), which has been charged to the Housing Revenue Account. This comprises capital expenditure on the dwellings stock not adding value to the asset base. (See HRA note 6 to the Accounts on Page 107)

## Note 37.1: Defined Benefit Pension Schemes

### Participation in pension schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments for those benefits and to disclose them at the time that employees earn their future entitlement.

The Authority participates in one post employment scheme:

- The Local Government Pension Scheme, administered locally by Kent County Council – this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

### Transactions relating to post employment benefits

The Authority recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Authority is required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund and Housing Revenue Account (HRA) via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement, the General Fund Balance and the HRA via the Movement in Reserves Statement during the year:

**Note 37.1: Defined Benefit Pension Schemes continued:**

Comprehensive Income & Expenditure Statement - Cost of Services	Local Government Pension Scheme	
	2013/14 £'000	2014/15 £'000
<b>Cost of Services:</b>		
• Current service cost	2,168	2,110
• Past service costs	250	210
• (Gain)/Loss from settlements	0	0
<b>Financing and Investment Income and Expenditure</b>		
• Net interest cost expense *	1,972	2,285
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>4,390</b>	<b>4,605</b>
<b>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>		
Remeasurement of the net defined liability comprising		
• Return on Plan Assets (excluding the amount included in the net interest expense)	(2,552)	(4,633)
• Actuarial gains and losses arising on changes in demographic assumptions	2,910	0
• Actuarial gains and losses arising on changes in financial assumptions	2,697	16,168
• Other Experience	1,356	0
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>4,411</b>	<b>11,535</b>
<b>Movement in Reserves Statement</b>		
• Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	(4,390)	(4,605)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>		
• Employers' contributions payable to scheme	2,549	2,927
<b>Net Charge to the General Fund and HRA</b>	<b>(1,841)</b>	<b>(1,678)</b>

The amount of actuarial gains and losses in the Other Comprehensive Income and Expenditure reported a loss of £11.535m at 31 March 2015 and at 31 March 2014 incurred an actuarial loss of £4.411m.

**Note 37.2: Pension Assets and Liabilities Recognised in the Balance Sheet**

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

	2014/15 £'000	2013/14 £'000
Present value of the defined benefit obligation	(120,843)	(140,763)
Fair value of plan assets	67,563	74,270
<b>Sub-Total</b>	<b>(53,280)</b>	<b>(66,493)</b>
Other movements in the liability (asset)	0	0
<b>Net Liability arising from defined benefit obligation</b>	<b>(53,280)</b>	<b>(66,493)</b>

**Note 37.3: Reconciliation of the movements in the Fair Value of Scheme (Plan) Assets**

In accordance with the Code (6.4.3.42 (6 and 7)) the Authority shall provide a reconciliation of the movements in Fair Value of the Scheme's Assets as follows:

Local Government Pension Scheme		
	2013/14 £'000	2014/15 £'000
Opening Fair Value of Scheme Assets 1 April	67,121	67,563
Interest income	2,858	2,955
<b>Remeasurement (gains) and losses:</b>		
The Return on plan assets, excluding the amount included in the net interest expense	2,552	4,633
Other	(3,608)	0
The effect of changes in foreign exchange rates	0	0
Contributions from Employer	2,549	2,927
Contributions from Employees into the scheme	511	576
Benefits paid	(4,366)	(4,333)
Other	(54)	(51)
<b>Closing fair value of scheme Assets 31 March 2015</b>	<b>67,563</b>	<b>74,270</b>

The recommended expected return on scheme assets is taken from Barnett Waddingham's proprietary asset model. The model parameters are calibrated to market conditions on a monthly basis. Based on performance as at 31 January 2015 and around 11% as at 31 March 2015, for example, the expected average LGPS return 10% per annum.

The Return on Plan Assets, excluding interest was £4.633m and (2013/14 £2.552m)  
The actual return on scheme assets in the year was £2.955m and (2013/14 £2.858m)

**Note 37.4: Reconciliation of present value of the Scheme Liabilities (Defined Benefit Obligation)**

	Funded liabilities: Local Government Pension Scheme	
	2013/14 £'000	2014/15 £'000
Opening balance at 1 April	114,149	120,843
Current service cost	2,112	2,059
Interest cost	4,830	5,240
Contributions by scheme participants	511	576
<b>Remeasurement (gains) and losses:</b>		
Actuarial gains/losses arising from changes in demographic assumptions	2,910	0
Actuarial gains/losses arising from changes in financial assumptions	2,697	16,168
Other	(2,250)	0
<b>Actuarial gains and losses prior year</b>		
Past service costs	250	210
Benefits paid	(4,366)	(4,333)
<b>Closing balance at 31 March 2015</b>	<b>120,843</b>	<b>140,763</b>

The liabilities show the underlying commitments that the Authority has in the long run to pay post-employment (retirement) benefits. The total liability of £140.76m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet, resulting in a negative overall balance of £66.49m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

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

The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2016 is £2,705m.

## Note 37.5 Local Government Pensions Scheme Assets

The Local Government Pension Scheme Assets comprised :

Fair Value of Scheme Assets - Note 1				
	2013/14 £'000	% of total assets	2014/15 £'000	% of total assets
Cash and Cash Equivalents	2,027	3.0%	2,031	2.7%
<b>Equity Instruments</b>				
<i>By Industry type (Note 2) :</i>	47,970	71.0%		
• Consumer			7,955	10.7%
• Manufacturing			4,233	5.7%
• Materials, Energy & Utilities			3,646	4.9%
• Financial Institutions			8,028	10.8%
• Health and Care			2,005	2.7%
• Other Pooled Funds/Private Equity			22,214	29.9%
• Information Technology			2,674	3.6%
<b>Sub-total Equity (Note 2)</b>	<b>49,997</b>	<b>74.0%</b>	<b>52,786</b>	<b>71.1%</b>
<b>Bonds:</b>				
• Corporate investment grade	7,432	11.0%		
• Consumer			669	0.9%
• Financial Services			1,790	2.2%
• Health and care			223	0.3%
• Information Technology	-		669	0.9%
• Materials, Energy & Utilities			1,040	1.3%
• Other			3,869	4.7%
• Overseas/Gilts	676	1.0%	777	1.1%
<b>Sub-total Bonds</b>	<b>8,108</b>	<b>12.0%</b>	<b>9,037</b>	<b>11.3%</b>
<b>Property - by Type:</b>				
• UK	6,756	10.0%	9,199	12.1%
• Overseas	0		27	0.3%
<b>Sub-Total Property</b>	<b>6,756</b>	<b>10.0%</b>	<b>9,226</b>	<b>12.4%</b>
<b>Private Equity:</b>				
• UK and Overseas *(1)	0		1	0.9%
<b>Sub-Total Private Equity</b>	<b>0</b>	<b>0.0%</b>	<b>1</b>	<b>0.9%</b>
<b>Investment Funds and unit</b>				
• Target Return Portfolio	2,702	4.0%	3,220	4.3%
<b>Sub-Total Other Investment</b>	<b>2,702</b>	<b>4.0%</b>	<b>3,220</b>	<b>4.3%</b>
<b>Total Financial Assets</b>	<b>67,563</b>	<b>100.0%</b>	<b>74,270</b>	<b>100.0%</b>

Note 1 \*- All Scheme Assets have quoted prices in active markets with the exception of Private Equity units - quoted prices not in active markets.

Note 2 - The risks relating to assets in the scheme with quoted prices not in active markets are as per below:

**Fair Value of Scheme Assets**  
**Note 2**

	2013/14 £'000	% of total assets	2014/15 £'000	% of total assets
<b>Equity Instruments:</b>				
• UK and Overseas *(1)	0	0%	1	0.90%
<b>Sub-Total Private Equity Instruments</b>	<b>0</b>		<b>1</b>	

**Note 37.6: Financial Assumptions**

Liabilities have been assessed by reference to market yields on high quality corporate bonds at the end of the accounting year. The Actuary has derived the discount rate yield based on a corporate bond yield curve. Local Government Pension Scheme liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, estimates for the Kent County Council Fund being based on the latest full valuation of the scheme as at 31 March 2015. Other assumptions relating to Mortality and Pension, salary, discount rate fluctuations and CPI/RPI increases have been included in their report and outlined below:

The principal assumptions used by the actuary have been:

	<b>Local Government Pension Scheme</b>	
	2013/14	2014/15
<b>Mortality assumptions:</b>		
Longevity at 65 for current pensioners:		
- Males	22.7 yrs	22.8 yrs
- Females	25.1 yrs	25.2 yrs
Retiring in 20 years:		
- Males	24.9 yrs	25.1 yrs
- Females	27.4 yrs	27.6 yrs
Rate of increase in salaries	4.60%	4.20%
Rate of increase in pensions	2.80%	2.40%
Rate for discounting scheme liabilities	4.40%	3.30%
RPI increases	3.60%	3.20%
CPI increases	2.80%	2.40%

The RPI increase assumption is 3.2% and is set based using the difference between conventional gilt yields and index-linked gilt yields and is consistent with the approach last year. As future pension increases are based on CPI rather than RPI, an assumption that CPI will be 0.8% below RPI i.e. 2.4% p.a.

Salaries are assumed to increase at 1.8% p.a. above CPI in addition to the promotional scale.

**Sensitivity Analysis - changes in assumptions as at 31.3.15****Impact on the Defined Benefit Obligation in the Scheme**

	<b>Increase in Assumption £'000</b>	<b>Decrease in Assumption £'000</b>
--	-----------------------------------------	-----------------------------------------

0.1% increase in real discount rate	2,399	(2,443)
Longevity (increase or decrease in year)	(4,971)	4,927
0.1% increase in Salary increase Rate	(283)	281
0.1% increase in Pension increase Rate	(1,860)	1,827

**Note 37.7: Asset and Liability funding Strategy****Pension Funding Strategy**

Kent Pension Fund has agreed to a 'Funding Strategy Statement' that matches the type of Assets invested to the Liabilities in the defined benefit obligation. The fund has matched assets to the Pension Fund 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 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 (71.1% of scheme assets) and bonds (11.3%). These percentages are materially the same as the comparative year. The scheme also invests in properties as a part of the diversification of the scheme's investments and comprises 12.4% of the total portfolio. The Pension Funding Strategy's main objectives are to maintain a funding level of 100%, as assessed by the Fund's appointed Actuary 'Barnett Waddingham', triennially, in accordance with regulations and to stabilise an Employer rate as far as is practicable. The Funding Strategy Statement is monitored as frequently as necessary.

**Note 37.8: Impact on the Local Authority's Cash Flows****Impact on the Authority's Cash Flows**

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a Funding Strategy with the scheme's actuary to achieve a funding level of 100% over the next 18 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2016. The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2015 (or service after 31 March 2016 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Authority anticipates paying £2.705m contributions to the scheme in 2015/2016.

The weighted average duration of the defined benefit obligation for scheme members is 17 years in 2014/15 (18 years 2013/14).



## Note 38: Contingent Liabilities

### East Kent Housing Ltd

There is a related party arrangement between the Authority and East Kent Housing Ltd, a company limited by guarantee. The Authority has a guarantee in place to meet the Pension Liability should the entity not be able to fulfil its liabilities with regard to the Kent Local Government Pension Fund.

### Pension Liability

The Pension Liability has increased from £5.1m in 2013/14 to £8.2m as at 31 March 2015. The company remains able to fulfil its current pension obligations and will not be calling upon the 4 joint operating owners for financial support.

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.

## Note 39: Contingent Assets

### Value Added Tax

There are no known Contingent Assets for the Authority, however there have been continuing investigations surrounding a high court challenge regarding VAT. NEPRO (a neutral vendor service set up by the North East Procurement Organisation and specifically designed for Local Government ) are working with Mishcon de Reya, an international law firm, who are lodging a Group Litigation Order (GLO) with the High Court in respect of embedded VAT paid on postal services provided by Royal Mail.

Local authorities and other public bodies using mail franking services provided by Royal Mail have been paying an embedded amount of VAT which has not been passed on to HMRC by Royal Mail, and indeed has not been claimable by the individual authorities concerned. The details of the GLO could mean a substantial claw back of VAT for the Authority. There is a non-material cost involved in proceeding with a claim.

Over 60 local authorities have already signed up to the Group Litigation Order.

## Note 40. Trust Funds

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 (£528,000) 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 £528,000 have been included under Cultural and Related Services, Environmental and Regulatory Services and Planning Services in the Comprehensive Income and Expenditure Statement (2013/14 £503,000).

Income to the Charity therefore includes a contribution of £528,000 from the Council (£503,000 in 2013/14). 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.

The Authority acts as a custodian 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. As a custodian trustee the Authority holds the property and monies but takes no decision on its use. The Authority is holding £248,000 of investments and an £11,000 overdraft on behalf of the charity. The funds do not represent the assets of the Authority and therefore they have not been included in the Balance Sheet.

### Funds for which the Authority acts as a custodian trustee:

For the Year 2014/15	Income £'000	Expenditure £'000	Assets £'000	Liabilities £'000
Folkestone Parks and Pleasure Grounds	(619)	619	3778	(2,585)
<b>Total</b>	<b>(619)</b>	<b>619</b>	<b>3,778</b>	<b>(2,585)</b>

### Funds for which the Authority acts as a custodian trustee:

For the Year 2013/14	Income £'000	Expenditure £'000	Assets £'000	Liabilities £'000
Folkestone Parks and Pleasure Grounds	(594)	594	3682	(2,628)
<b>Total</b>	<b>(594)</b>	<b>594</b>	<b>3,682</b>	<b>(2,628)</b>

## Note 41. Interests in Companies and Other Entities

### **East Kent Housing Ltd (See Related Party Disclosure Note 34)**

The Authority, together with Canterbury City Council, Dover District Council and Thanet District Council jointly owns East Kent Housing Ltd, an Arms Length Management Organisation (ALMO), whose principal activity is to manage each of the four council's council housing stock. For financial accounting purposes, East Kent Housing (the Company) is regarded as being a Related Party and jointly owned with the other 3 Local Authorities above. Each Authority holds an equal 25% share in the Company.

The councils have an agreement with East Kent Housing to the return of any surplus to the company of over 5%. For 2014/15 and 2013/14 there was no surplus to return to the company.

### **International Financial Reporting Standards (IFRS 11)**

1. The CIPFA code of Practice and International Financial Reporting Standards require tests to be performed to assess the Group Arrangements for those Authorities and Entities that fall into the category of a Joint operation under IFRS 11. East Kent Housing has been classified as a related party and is therefore not required to be consolidated into the Group Accounts.

2. The Authority has rights/obligations to particular assets/liabilities.

3. The Pension Fund deficit of £8.4m in 2014/15 (£5.05m in 2013/14) is fully guaranteed by its owner Authorities via the Management Agreement.

4. Net balance owed by EKH Ltd to Shepway DC was £10.3K for 2014/15 (2013/14 - £8.9K).

Management fee was £1,894K for 2014/15 ( £1,713K - 2013/14).

The financial results of the Company for 2014/15 and the council's share are as follows:

	2013/14 £'000	2013/14 £'000	2014/15 £'000	2014/15 £'000
Profit/Loss from Operations for East Kent Housing Ltd	East Kent Housing Ltd	Authority Share at 25%	East Kent Housing Ltd	Authority Share at 25%
Turnover	8,158	2,040	8,374	2,094
Expenses	(8,465)	(2,116)	(8,789)	(2,197)
<b>Operational Profit/Loss</b>	<b>(307)</b>	<b>(77)</b>	<b>(415)</b>	<b>(104)</b>
Finance Costs	(181)	(45)	(209)	(52)
<b>Profit/Loss before Taxation</b>	<b>(488)</b>	<b>(122)</b>	<b>(624)</b>	<b>(156)</b>
Income Tax Expense	(2)	0	(1)	0
<b>Profit/Loss for year</b>	<b>(490)</b>	<b>(122)</b>	<b>(625)</b>	<b>(156)</b>
<b>Other Comprehensive Income, Net of Tax</b>	<b>(170)</b>	<b>(43)</b>	<b>(2,471)</b>	<b>(618)</b>
<b>Total Comprehensive (Loss)/Income for the year</b>	<b>(660)</b>	<b>(165)</b>	<b>(3,096)</b>	<b>(774)</b>

Balance Sheet - East Kent Housing Ltd	2013/14 £'000	2013/14 £'000	2014/15 £'000	2014/15 £'000
Non-Current Assets	54	14	58	15
Current Assets	972	243	1,934	484
<b>Total Assets</b>	<b>1,026</b>	<b>257</b>	<b>1,992</b>	<b>498</b>
Current Liabilities	463	116	1,149	287
Non-Current Liabilities	5,053	1,263	8,429	2,107
<b>Total Liabilities</b>	<b>5,516</b>	<b>1,379</b>	<b>9,578</b>	<b>2,395</b>
<b>Net Liabilities</b>	<b>(4,490)</b>	<b>(1,123)</b>	<b>(7,586)</b>	<b>(1,897)</b>
Retained Earnings	563	141	620	155
Pensions Reserve	(5,053)	(1,263)	(8,206)	(2,052)
<b>Total Equity</b>	<b>(4,490)</b>	<b>(1,123)</b>	<b>(7,586)</b>	<b>(1,897)</b>

### **East Kent Spatial Development Company (see Related Party Disclosure)**

#### **Principal Activities and Background**

The company comprises of four local authorities and Kent County Council. It also includes representatives from University of Kent and 'Locate in Kent'. On 31st March 2014 the Homes and Communities Agency (HCA) resigned as a member organisation of the company.

The company was formed to encourage Economic Development in the region, increase employment potential, infrastructure and regeneration.

The Articles of Association for the company reflects the board which comprises of Class A representatives from the 3 Authorities namely Shepway DC, Dover DC, Thanet DC, Kent County Council and Canterbury City Council. Class B representatives comprising of the University of Kent and 'Locate in Kent'.

Article 12 states that no business shall be transacted at any meeting unless a quorum is present. The quorum shall comprise 3 members (who shall be separate representatives of the 3 Councils). Although the company has characteristics of a Joint Operation, their Accounts state that there is no controlling party. As at the 3rd June 2015 we received a set of accounts for 2013/14 and have updated this note accordingly

There are no transactions to disclose in respect of East Kent Spatial Development Company.

#### **Oportunitas Ltd**

The Financial Statements for the wholly owned subsidiary 'Oportunitas Ltd' are consolidated into the Group Accounts on Page 109.

## Note 42.1 Collection Fund

### Introduction

This account reflects the statutory requirement to maintain a separate Collection Fund, which shows the transactions of the Council as a billing authority in relation to National Non-Domestic Rates (NNDR) and Council Tax. It illustrates the way in which these have been distributed to precepting authorities and the Council's own General Fund. The introduction to Business Rates Retention requires Local Authorities to maintain separate Collection Fund Accounts for Business Rates and Council Tax as follows:

### Collection Fund for the Year Ended 31 March 2015

2014/15		2013/14 Business Rates NNDR 3 £'000	2013/14 Council Tax £'000	2013/14 TOTALS £'000	2014/15 Business Rates NNDR 3 £'000	2014/15 Council Tax £'000	2014/15 TOTALS £'000
<b>Notes</b>	<b>Notes</b>						
<b>Income</b>							
Council Tax Receivable	1		53,740	53,740		56,805	56,805
Business Rates Receivable	3	27,830		27,830	28,481		28,481
<b>Total Income</b>		27,830	53,740	81,570	28,481	56,805	85,286
<b>Charges to the Collection Fund:</b>							
Less write offs of uncollectable amounts		383	180	563	320	180	500
Less increase / Decrease in provision for Bad Debts (-)		154	174	328	33	55	88
Less increase / Decrease in provision for appeals* (-)		1,487		1,487	1,122		1,122
Less Disregarded amounts							
Contribution to Collection Fund Surplus			200	200		723	723
<b>Total Charges to the Collection Fund</b>		2,024	554	2,578	1,475	958	2,433
<b>Collectable Rates</b>		25,806	53,186	78,992	27,006	55,847	82,853
<b>Less Other Charges :</b>							
Transitional Protection sums due from the Authority		218		218	85		85
Cost of Collection allowance		153		153	152		152
<b>Non-domestic Rating (NNDR) income - 2014/15</b>		25,435	53,186	78,621	26,769	55,847	82,616
<b>Demands, Precepts and Proportionate Shares</b>							
DCLG / Central Government 50% Share NNDR	2	12,718		12,718	13,385		13,385
Shepway District Council Share 40% Share NNDR	2	10,174	9,714	19,888	10,708	9,910	20,618
Kent County Council 9% Share NNDR	2	2,289	35,167	37,456	2,409	36,806	39,215
Kent and Medway Fire and Rescue 1% Share NNDR	2	254	2,281	2,535	268	2,387	2,655
Kent Police (Council Tax only)	2		4,748	4,748		4,969	4,969
<b>NNDR Income as at 31 March 2015 *</b>		25,435	51,910	77,345	26,770	54,072	80,842
Less NNDR1 and NNDR 3 Reconciliation Amounts	3	(663)		(663)	1,429		1,429
<b>Surplus/Deficit (-) arising during the year</b>		(663)	1,276	613	1,428	1,775	3,203
<b>Collection Fund Surplus/(Deficit) in Year</b>							
		Business Rates £'000	Council Tax £'000	2013/14 Total £'000	Business Rates £'000	Council Tax £'000	2014/15 Total £'000
DCLG / Central Government 50% Share NNDR		(332)		(332)	714		714
Shepway District Council Share 40% Share NNDR	*	(265)	336	71	571	316	887
Kent County Council 9% Share NNDR		(60)	1,234	1,174	129	1,216	1,345
Kent and Medway Fire and Rescue 1% Share NNDR		(7)	80	73	14	79	93
Kent Police (Council Tax only)			167	167		164	164
<b>Surplus/Deficit (-) for Year 2014/15 &amp; b/f 2013/14</b>		(663)	1,817	1,154	1,428	1,775	3,203
<b>Surplus /Deficit (-)b/f 1st April</b>		0	541	541	(663)	1,817	1,154
<b>Surplus/Deficit (-) c/f 31st March</b>		(663)	1,817	1,154	765	3,592	4,357
<b>Collection Fund Surplus/(Deficit) Cumulative as at 31 March 2015</b>							
		Business Rates £'000	Council Tax £'000	2013/14 Total £'000	Business Rates £'000	Council Tax £'000	2014/15 Total £'000
DCLG / Central Government (50% Share NNDR)		(332)		(332)	383	0	383
Shepway District Council Share (40% Share NNDR)		(265)	336	71	306	652	958
Kent County Council (9% Share NNDR)		(60)	1,234	1,174	69	2,450	2,519
Kent and Medway Fire and Rescue (1% Share NNDR)		(7)	80	73	7	159	166
Kent Police (Council Tax only)			167	167	0	331	331
<b>Surplus/Deficit (-) c/f 31st March 2015</b>		(663)	1,817	1,154	765	3,592	4,357
<b>Memorandum Note - Debtors and Prepayments as at 31 March 2015</b>							
		Business Rates £'000	Council Tax £'000	2013/14 Total £'000	Business Rates £'000	Council Tax £'000	2014/15 Total £'000
Sums outstanding from Ratepayers (Arrears/Debtors)		1,212	4,782	5,994	1,084	4,871	5,955
Prepayments and Overpayments		493	1,230	1,723	408	1,392	1,800

\* Please see Note 12 for General Fund NNDR Allocations

## Note 42.2 - Council Tax Base

### NOTES TO THE COLLECTION FUND

#### Council Tax:

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund in the forthcoming year by the Council and its preceptors (Authorities we collect Council Tax for).

The Council's preceptors are:

- Kent County Council
- Kent Police Authority
- Kent and Medway Fire and Rescue Service
- 30 Town and Parish Councils

The total Council Tax requirement is then divided by the Council Tax Base.

The Council Tax Base is calculated before the start of the year by estimating the number of dwellings in each valuation band (adjusted for discounts where applicable) and converting this into an equivalent number of "Band D" dwellings.

The calculation of the Council Tax Base for 2014/15 (with comparative figures for 2013/14) is set out

Valuation Band	Range of Values	Estimated Number of Properties	Multiplier	2013/14 Band D Equivalent	2014/15 Band D Equivalent
A	Up to £40,000	3,539	6/9	1,969	2,359
B	£40,000 to £52,000	8,052	7/9	5,669	6,263
C	£52,001 to £68,000	10,560	8/9	8,920	9,387
D	£68,001 to £88,000	6,399	9/9	6,280	6,395
E	£88,001 to £120,000	4,105	11/9	4,902	5,017
F	£120,001 to £160,000	2,367	13/9	3,346	3,419
G	£160,001 to £320,000	1,662	15/9	2,714	2,770
H	More than £320,000	75	18/9	145	149
		<b>36,758</b>		<b>33,945</b>	<b>35,759</b>
	Less Allowance for Non-collection			(763)	(1,699)
	Add Crown properties (in lieu)			381	381
	<b>Council Tax Base</b>			<b>33,563</b>	<b>34,442</b>

The average "Band D" Council Tax for 2014/15, excluding Town and Parish Councils was £1,525.61, (£1,503.06 in 2013/14)

Property values are as at 1.4.1991 prices

### Note 42.3 Preceptors

The total Demand on the Collection Fund's Council Tax element by the Authority and its preceptors is set out below.

Note 2 Council Tax	2013/14 £'000	2014/15 £'000
Shepway District Council	9,714	9,910
Kent County Council	35,167	36,806
Kent Fire and Rescue	2,281	2,387
Kent Police	4,748	4,969
<b>Total Council Tax Demand on the Collection Fund</b>	<b>51,910</b>	<b>54,072</b>

Note 2 NNDR income Gross apportionments 31.3.2015	2013/14 £'000	2014/15 £'000
NNDR Income as at 31.3.2015	25,435	26,769
Split as follows:-		
Central Government (DCLG) 50%	12,718	13,385
Kent County Council 9% Share	2,289	2,409
Kent Fire & Rescue 1% Share	254	268
Shepway District Council 40% Share	10,174	10,708
<b>Reconciliation to Note 12 income Figure (General Fund) :</b>		
Add half of Small Business Rate Relief X 40% SDC Share	540	546
Authority Share SDC for Safety Net and Levy Calculation	10,714	11,254

### Note 42.4 NNDR Rateable Values

The Council collects Business Rates for the district, which are based on rateable values multiplied by a uniform rate (or 'poundage') set by central government. Information on rateable values and the poundage rates are set out below. NNDR 1 is the Estimated income Return to the Government and NNDR 3 is the Actual outturn reported to Central Government (DCLG). (See Table on Note 42.1 - Page 93)

Note 3	2013/14	2014/15
Non-Domestic Rateable Value Gross	£74.02m	£74.39m
Standard Business Rate	47.1p	48.2p
Small Business Rate	46.2p	47.1p
Business Rates Receivable after reliefs & transition	£27.83m	£28.48m

## Note 42.5 Town and Parish Council Precepts

The Town and Parish Council Precepts are set out below:

Town and Parish Councils:	2013/14 £'000	2014/15 £'000
Folkestone	574	574
Sandgate	58	61
Hythe	279	287
Lydd	86	122
New Romney	137	137
Elham	16	16
Elmsted	0	1
Hawkinge	112	118
Lyminge	34	34
Lympne	12	15
Monks Horton	1	1
Newington	4	4
Postling	2	2
Saltwood	9	9
Sellindge	23	30
Stanford	5	4
Stelling Minnis	5	5
Stowting	2	2
Swingfield	17	18
Brenzett	4	5
Brookland	10	10
Burmarsh	3	3
Dymchurch	41	41
Ivychurch	4	5
Newchurch	3	3
St Mary in the Marsh	21	21
<b>Total Town and Parish Council Precepts</b>	<b>1,462</b>	<b>1,528</b>



### 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 13 February 2014 and is available on the council's website. The key issues within the strategy were:

- The Authorised Limit for 2014/15 was set at £66.6m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was originally set at £64.1m. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 20% based on the council's net debt.
- The maximum and minimum exposures to the maturity structure of debt are shown below.

## Note 43. Nature and extent of risks arising from Financial Instruments

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.

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. In summary, the key areas of the Investment Strategy for 2014/15 are that the minimum criteria for investment counterparties include:

- UK Banks where the UK Government is the majority shareholder, i.e. part nationalised banks. Maximum investment duration of up to two years.
- Other UK banks and building societies with a credit rating for short term investments of F1, P1, A1 and long term investments of A/A2/A respectively with the main credit rating agencies. Maximum investment duration of up to one year.
- Non UK banks, domiciled in a country with a minimum Sovereign long term rating of AAA. The banks must also have a credit rating for short term investments of F1, P1, A1 and long term investments of AA-/Aa3/AA- with the three main credit rating agencies). Maximum investment duration of up to one year.
- Money Market Funds with AAA rating.
- Enhanced Cash Funds with AAA rating
- Local Authority Property Funds (£3m limit)
- A maximum of £5m to be invested with any single UK financial institution, or a banking group except for the part nationalised UK Banks, UK local authorities and the UK Government where a £8m limit is applied.
- A maximum of £8m to be invested in non-UK banks at any one time with a limit of £4m per country and £4m per institution.

The Annual Investment Strategy for 2014/15 was originally approved by Full Council on 13 February 2014 and subsequently revised by them on 1 October 2014 to incorporate a minor amendment to the minimum criteria for investment counterparties.

The following analysis summarises the council's maximum exposure to credit risk, based on experience of default, adjusted to reflect current market conditions.

## Note 43. Nature and extent of risks arising from Financial Instruments

Estimated maximum exposure to default 31/03/14	Rating	Amount as at 31 March 2015	Historical experience or default	Adjustment for market conditions at 31/03/15	Estimated maximum exposure to default 31/03/15
£000's		£000's	%	%	£000's
-	AAA rated counterparty	6.2	-	-	-
3.4	AA rated counterparty	12.0	0.007	-	-
17.9	A rated counterparty	17.6	0.009	-	2
<b>21.3</b>	<b>Total</b>	<b>35.8</b>			<b>2</b>

The Council uses pooled funds, for example pooled bond, equity and property funds that offer enhanced returns over the longer term but are potentially more volatile over the shorter term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued 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. However, £1.4m (excluding recovery of benefit overpayments from ongoing entitlement) of the council's sundry debt of £3.5m is more than one year old. The risk that these debts over 1 year old will not be paid is mitigated by a provision for bad and doubtful debts of £0.7m calculated in accordance with the council's accounting policies.

The overall provision for impairment of sundry debts has decreased slightly compared to the 2013/14 position. This is due to the level of arrears falling from the previous year's results. The level of provision was reviewed in light of current economic conditions. The provision is reviewed as adequate in light of 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,

## Note 43. Nature and extent of risks arising from Financial Instruments

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.

2013/14 £000'S		2014/15 £000's
7,562	Less than one year	<b>20,591</b>
8,031	Between one and two years	-
-	More than two years	<b>3,132</b>
<b>15,593</b>	<b>Total</b>	<b>23,723</b>

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 the maximum and minimum limits for fixed interest rates maturing in each period (approved by council in the Treasury Management Strategy). Monetary values below are measured at nominal amounts.

Actual 31 March 2014 £000's		Approved Maximum Limits		Approved Minimum limits		Actual 31 March 2015	
		%	£000's	%	£000's	%	£000's
1,050	Less than one year	30	19,980	0	-	4.51	2,812
2,164	Between one and two years	40	26,640	0	-	0.09	57
3,846	Between two and five years	50	33,300	0	-	7.53	4,692
12,700	Between five and ten years	80	53,280	0	-	25.04	15,600
43,156	More than ten years	100	66,600	0	-	62.83	39,155
<b>62,916</b>	<b>Total</b>					<b>100</b>	<b>62,316</b>

## Note 43. Nature and extent of risks arising from Financial Instruments

### 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 Comprehensive Income and Expenditure Statement will rise.
- Borrowings at fixed rates – the fair value of the council's liabilities would fall (no impact on revenue balances)
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement would rise.
- Investments at fixed rates – the fair value of the assets would fall (no impact on revenue balances).

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments would be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund or HRA balance. Movements in the fair value of any financial assets at profit or loss will also be reflected in the Comprehensive Income and Expenditure Statement - the council did not hold any such investments at 31 March 2015.

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. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	£000's
Increase in interest payable on variable rate borrowings	6
Increase in interest receivable on variable rate investments	(238)
<b>Impact on Comprehensive Income and Expenditure Statement</b>	
Share of overall impact credited to the HRA	86

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 Comprehensive Income and Expenditure Statement.

#### Price risk

### **Note 43. Nature and extent of risks arising from Financial Instruments**

The council does not currently invest in equity shares or marketable bonds and is not exposed to a price risk through its treasury management activities.

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.

## Housing Revenue Accounts 2014/15

### Note 44 HRA: Housing Revenue Account (HRA) Income and Expenditure Statement

2013/14 £000's		Note	2014/15 £000's
<b>Income</b>			
(14,289)	Dwelling rents (Gross)		(14,642)
(345)	Non dwelling rents (Gross)		(334)
(952)	Charges for services and facilities		(942)
(50)	Contributions towards expenditure		(50)
<b>(15,636)</b>			<b>(15,968)</b>
<b>Expenditure</b>			
2,763	Repairs and maintenance		3,131
3,928	Supervision and management		3,914
21	Rents, rates, taxes and other charges		21
0	Negative HRA subsidy payable		0
5,251	Depreciation and impairment of non-current assets	6	6,634
(10,127)	Exceptional item - valuation gain	10	(9,043)
60	Debt management costs		34
57	Increase in bad debt provision	7	61
<b>1,953</b>			<b>4,752</b>
(13,683)	<b>Net surplus of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement</b>		<b>(11,216)</b>
212	HRA services share of Corporate and Democratic Core		191
<b>(13,471)</b>	<b>Net surplus of HRA services</b>		<b>(11,025)</b>
(301)	(Gain)/loss on sale of HRA non-current assets		(355)
1,857	Interest payable and similar charges		1,843
(49)	Interest and investment income		(73)
103	Net interest on the net defined liability	9	114
<b>(11,861)</b>	<b>Surplus for the year on HRA Services</b>		<b>(9,496)</b>

**Note 44 HRA: Movement on the Housing Revenue Account Statement**

2013/14 £000's		Note	2014/15 £000's
(11,861)	Surplus on the HRA Income and Expenditure Statement		(9,496)
(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		(24)
11,337	Difference between any other items of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	8	7,190
301	Gain or (loss) on sale of HRA non-current assets		355
96	Capital expenditure funded by the HRA		687
(97)	HRA share of contributions to or from the Pensions Reserve	9	(83)
<b>(248)</b>	<b>Net (increase) or decrease before transfers to or from Reserves</b>		<b>(1,371)</b>
0	Transfer from the Majors Reserve		0
<b>(248)</b>	<b>(Increase) or decrease in year on the HRA</b>		<b>(1,371)</b>
(2,633)	Balance on the HRA at the end of the previous reporting period		(2,881)
(248)	(Increase) or Decrease in year on the HRA (as shown above)		(1,371)
<b>(2,881)</b>	<b>Balance on the HRA at the end of the current reporting period</b>		<b>(4,252)</b>



## Note 44.1 HRA Note 1 - Housing Assets

At 31 March 2015, the council was responsible for managing 3374 units of accommodation (excluding shared ownership properties).

At 31 March 2015, the housing stock comprised as follows:

	2014/15 No. of units
Housing and Bungalows	1,925
Flats, Bedsits, etc.	1,449
<b>Stock at 31 March</b>	<b>3,374</b>

The change in the stock can be summarised as follows:

2013/14 No. of units		2014/15 No. of units
3,409	Stock at 1 April	3,396
0	Acquisitions	0
(13)	Sales	(19)
0	Change in use/conversions	(3)
<b>3,396</b>	<b>Stock at 31 March</b>	<b>3,374</b>

The Balance Sheet value was as follows:

01/04/2014 £000's		31/03/2015 £000's
120,145	Dwellings	125,023
3,877	Other Land & Buildings	3,929
517	Infrastructure	802
367	Vehicles, Plant, Furniture and Equipment	327
<b>124,906</b>	<b>Total Operational Assets</b>	<b>130,081</b>
117	Assets under construction	739
331	Assets held for sale	48
<b>448</b>	<b>Total Non Operational Assets</b>	<b>787</b>
<b>125,354</b>	<b>Total Assets</b>	<b>130,868</b>

#### Note 44.2 HRA Note 2 - Vacant Possession Value

The vacant possession value of dwellings within the HRA as at the 1 April 2014 was £375,681,147. Except for recent purchases and works made during the year, where the valuation reflects existing use, the Balance Sheet figure has been reduced to 32% to show existing use value as social housing, reflecting the economic cost of providing council housing at less than open market rates.

#### Note 44.3 HRA Note 3 - Major Repairs Reserve

2013/14 £000's		2014/15 £000's
(354)	Balance on Major Repairs Reserve as at 1 April	(155)
	The amount transferred to the Major Repairs Reserve during the financial year	
(2,692)	Depreciation and impairment of non-current assets	(3,884)
	The amount transferred from the Major Repairs Reserve during the financial year	
0	Adjustment to depreciation to equal Major Repairs Allowance	0
2,891	Capital expenditure on land, houses and other property within the HRA	2,981
<b>(155)</b>	<b>Balance on the Major Repairs Reserve as at 31 March</b>	<b>(1,058)</b>

#### Note 44.4 HRA Note 4 - Capital Expenditure on Land, Houses and other property within the HRA

2013/14 £000's		2014/15 £000's
0	Land	0
2,935	Houses	3,531
74	Other property	328
<b>3,009</b>	<b>Total Capital expenditure</b>	<b>3,859</b>

#### Note 44.5 HRA Note 5 - Capital Financing

The capital expenditure detailed in Note 4 above was financed as follows:

2013/14 £000's		2014/15 £000's
10	Capital grant	0
12	Capital receipts	191
96	Revenue	687
2,891	Major Repairs Reserve	2,981
<b>3,009</b>	<b>Total Capital Financing</b>	<b>3,859</b>

A summary of HRA capital receipts during the year is as given below:

2013/14 £000's		2014/15 £000's
0	Land	0
959	Houses & flats	1,324
2	Mortgage repayments and repaid discounts	2
<b>961</b>	<b>Total Capital Financing</b>	<b>1,326</b>

**Note 44.6 HRA Note 6 - Depreciation, Impairment & Valuation on Non-Current Assets**

	2013/14			2014/15		
	Revaluation £000's	Depreciation £000's	Impairment £000's	Revaluation £000's	Depreciation £000's	Impairment £000's
Land						
Dwellings	(10,131)	2,502	2,766	(9,043)	3,676	2,876
Other Land & Buildings	(203)	91	0	(144)	106	0
Infrastructure	0	32	0	0	32	0
Vehicles, Plant, Furniture & equipment	0	67	0	0	70	0
<b>Total Assets</b>	<b>(10,334)</b>	<b>2,692</b>	<b>2,766</b>	<b>(9,187)</b>	<b>3,884</b>	<b>2,876</b>

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 2014/15 £0.173m was posted to the Revaluation Reserve Account in respect of revaluation gains and is disclosed in Other Comprehensive Income and Expenditure Account and disclosure note 23.1

**Note 44.7 HRA Note 7 Rent Arrears**

	31 March 2014 £000's	31 March 2015 £000's
Gross rent arrears	211	230
Current tenant arrears (excluding former tenants)	135	144
Provision for doubtful debts	57	61

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 2015 are £0k for current tenants and £3k for former tenants.

**Note 44.8 HRA Note 8 Difference between any other items of Income and Expenditure**

	2013/14 £000's	2014/15 £000's
Provision for debt repayment	3,770	900
HRA impairment-capital expenditure not adding value	(2,766)	(2,876)
Net valuation changes	10,334	9,187
Other changes	(1)	(20)
	<b>11,337</b>	<b>7,191</b>

#### Note 44.9 HRA Note 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.

2013/14 £000's		2014/15 £000's
113	Current Service Cost	105
103	Net Interest on net defined liability	114
<b>216</b>	<b>Net charge to the HRA Income &amp; Expenditure Statement</b>	<b>219</b>
(97)	HRA share of contributions to or from the pensions reserve in the Movement on the HRA Statement	(83)
<b>119</b>		<b>136</b>
119	Employer contributions	136
<b>119</b>	<b>Actual amounts charged against the HRA balance for pensions during the year</b>	<b>136</b>

#### Note 44.10 HRA Note 10 Exceptional Item - Valuation Gain

On the advice of the Council's external valuer, the Council's dwellings value of £119.7m has been increased by 7.37%, i.e. £9m, to reflect the experience of property valuation changes seen in the south east over the past year (see Note 13 to the Core Financial Statements). As previous revaluation losses have been charged the HRA Income and Expenditure Account in the past this valuation gain is taken to the I&E to reverse previous losses and is not taken to the Revaluation Reserve.

#### Note 44.11 note 11 Item 8 Credit and Item 8 Debit (General) Determination

The Capital asset charges accounting adjustments calculated in accordance with regulations were as follows:

The Item 8 Debit was calculated by multiplying the average HRA Capital Financing Requirement (HRA CFR) by the Consolidated Rate of Interest on the Council's borrowing for the year and amount to £1.843m (£1.857m in 2013/14). In addition, debt repayment costs of £0.900m have been charged to the Housing Revenue Account (HRA) under the Item 8 Debit in accordance with the HRA Determination (£3.77m in 2013/14)

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 £0.063m (£0.038m in 2013/14)

## Group Accounts - Group Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in 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 Group Statement below shows the consolidated position of the Authority and incorporates the subsidiary entity 'Oportunitas Ltd'. The subsidiary has made a loss during the first year of trading but will continue as a going concern and will aim to re-coup its losses over the term of the current Business Plan.

2013/14				2014/15		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross income £'000	Net Expenditure £'000
3,032	(1,805)	1,227	Central services to the public	3,407	(1,831)	1,576
4,519	(1,098)	3,421	Cultural and related services	5,177	(1,988)	3,189
9,121	(2,911)	6,210	Environmental and regulatory services	9,207	(3,060)	6,147
3,677	(1,232)	2,445	Planning Services	3,617	(1,551)	2,066
1,661	(1,486)	175	Highways and transport services	1,768	(1,622)	146
12,080	(15,636)	(3,556)	Local Authority Housing (HRA)	13,764	(15,968)	(2,204)
(10,127)	0	(10,127)	Local Authority Housing (HRA) - Exceptional Item	(9,093)	0	(9,093)
45,853	(44,530)	1,323	Other Housing Services	45,804	(44,553)	1,251
1,653	(25)	1,628	Corporate and democratic core	1,718	(242)	1,476
250	0	250	Non distributed costs	1,728	0	1,728
<b>71,719</b>	<b>(68,723)</b>	<b>2,996</b>	<b>Cost Of Services</b>	<b>77,097</b>	<b>(70,815)</b>	<b>6,282</b>
5,942	(3,337)	2,605	Other Operating Expenditure	3,240	(1,377)	1,863
6,218	(2,390)	3,828	Financing and Investment Income and Expenditure	6,559	(2,777)	3,782
0	(9,986)	(9,986)	Council Tax Income	0	(10,842)	(10,842)
7,048	(10,439)	(3,391)	NNDR Income & Expenditure	7,081	(11,254)	(4,173)
0	(7,070)	(7,070)	Other Taxation and Non-Specific Grant Income	91	(6,126)	(6,035)
<b>90,927</b>	<b>(101,945)</b>	<b>(11,018)</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>94,068</b>	<b>(103,191)</b>	<b>(9,123)</b>
0	(200)	(200)	(Surplus) or deficit on revaluation of Property, Plant and Equipment assets	155	(1,647)	(1,492)
0	0	0	Reserves deficit	835	(777)	58
	(1)	(1)	Impairment Losses on non-current assets charged to the Revaluation Reserve	0	0	0
0	0	0	(Surplus) or deficit on revaluation of Available for Sale Financial assets		(128)	(128)
4,411	0	4,411	Remeasurements of the net defined liability	11,535		11,535
<b>4,411</b>	<b>(201)</b>	<b>4,210</b>	<b>Other Comprehensive Income and Expenditure</b>	<b>12,525</b>	<b>(2,552)</b>	<b>9,973</b>
<b>95,338</b>	<b>(102,146)</b>	<b>(6,808)</b>	<b>Total Comprehensive Income and Expenditure *</b>	<b>106,593</b>	<b>(105,743)</b>	<b>850</b>

\* Note -

The Group Comprehensive Income and Expenditure Account shows a reduction in balance due to losses incurred in the first year of trading for Oportunitas Ltd.

## Group Accounts - Group Balance Sheet

The Group Balance Sheet shows the value at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority 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 Authority 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 under regulations'. Where there are Minority Interests they have been classified as unusable Reserves. The Group Balance sheet shows the consolidated position incorporating the subsidiary 'Opportunitas Ltd' and the net reduction in the Group Balance Sheet is due to negative equity in the first year of trading.

2013/14 31 March 2014 £'000	Note	2014/15 31 March 2015 £'000
	<b>Non-Current Assets</b>	
32,572	Property, Plant & Equipment	33,494
120,145	Council Dwellings	125,023
1,332	Investment Property (including Assets Held for Sale)	2,127
273	Intangible Assets	262
8,013	Long Term Investments	3,132
4,702	Long Term Debtors	4,582
<b>167,037</b>	<b>Long Term Assets</b>	<b>168,620</b>
7,580	Short Term Investments	20,634
331	Assets Held for Sale	48
10	Inventories	11
6,274	Short Term Debtors	7,844
14,874	Cash and Cash Equivalents	13,537
<b>29,069</b>	<b>Current Assets</b>	<b>42,074</b>
(1,262)	Short Term Borrowing	(2,946)
(10,162)	Short Term Creditors	(12,411)
(658)	Current Provisions	(510)
(100)	Grants Receipts in Advance-Capital	(199)
<b>(12,182)</b>	<b>Current Liabilities</b>	<b>(16,066)</b>
(61,751)	Long Term Borrowing	(59,504)
(76)	Non-current Provisions	(671)
(177)	Capital Grants Receipts in Advance	(170)
(53,280)	Other Long Term Liabilities	(66,493)
<b>(115,284)</b>	<b>Long Term Liabilities</b>	<b>(126,838)</b>
<b>68,640</b>	<b>Net Assets</b>	<b>67,790</b>
24,589	Usable Reserves	28,287
44,051	Unusable Reserves	39,503
<b>68,640</b>	<b>Total Reserves</b>	<b>67,790</b>

Note 1 to the Accounts is shown on Page 113

### Group Accounts -Group Movement in Reserves Statement 2014/15

This statement shows the movement in the year on the different reserves held by the Authority and its subsidiary 'Opportunitas Ltd', 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 Authority's services, more details of which are shown in the Group Comprehensive Income and Expenditure Statement. 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 undertaken by the Authority.

Group Movement in Reserves Statement 2013/14	Note	Earmarked General Fund Reserves		Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
		General Fund Balance	£'000 (Note 8)							
<b>Balance at 31 March 2013</b>		4,581	6,368	2,633	354	4,018	863	18,817	43,015	61,832
<b>Movement in reserves during 2013/14</b>										
Surplus or (deficit) on the provision of services		(797)	0	11,815	0	0	0	11,018	0	11,018
Other Comprehensive Income and Expenditure		0	0		0	0	0	0	4,210	(4,210)
<b>Total Comprehensive Income and Expenditure</b>		(797)	0	11,815	0	0	0	11,018	4,210	6,808
Adjustments between accounting basis & funding basis under regulations	7	4,101	0	(11,567)	(199)	2,328	91	(5,246)	5,246	0
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>		3,304	0	248	(199)	2,328	91	5,772	1,036	6,808
Transfers to/from Earmarked Reserves		(2,387)	2,387	0	0	0	0	0	0	0
<b>Increase/Decrease in 2013/14</b>		917	2,387	248	(199)	2,328	91	5,772	1,036	6,808
<b>Balance at 31 March 2014 carried forward</b>		5,498	8,755	2,881	155	6,346	954	24,589	44,051	68,640
<b>Movement in Reserves during 2014/15</b>										
Surplus or (deficit) on provision of services		(454)	0	9,577		0	0	9,123	0	9,123
Other Comprehensive Income and Expenditure	10	0	0	0		0	0	0	(9,973)	(9,973)
<b>Total Comprehensive Income and Expenditure</b>		(454)	0	9,577	0	0	0	9,123	(9,973)	(850)
Adjustments between accounting basis & Funding basis under regulations	8	1,657	0	(8,206)	903	484	(206)	(5,368)	5,368	0
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>		1,203	0	1,371	903	484	(206)	3,755	(4,605)	(850)
Transfers to/from Earmarked Reserves	9	(1,055)	1,055	0	0	1	0	1	(1)	0
Reserves Deficit	10							(58)	58	0
<b>Increase/Decrease in Year 2014/15</b>		148	1,055	1,371	903	485	(206)	3,756	(4,606)	(850)
<b>Balance at 31 March 2015 carried forward</b>		5,646	9,810	4,252	1,058	6,831	748	28,287	39,503	67,790

\* Note 10 - This represents £12K Revaluation Reserve in Unusable Reserves and £58K deficit on the CIES as shown in Usable Reserves for Opportunitas Ltd

## Group Accounts - Group Cash-Flow Statement 2014/15

The Group Cash Flow Statement shows the changes in cash and cash equivalents of the Authority and its subsidiary 'Oportunitas Ltd' during the reporting period. This Statement shows how the Authority 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 Authority and its subsidiary are funded by way of taxation, grant income or from recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the Authority.

2013/14 £'000		2014/15 £'000
<b>11,018</b>	<b>Net (Surplus)/Deficit on the Provision of Services</b>	<b>9,134</b>
5,288	Adjustments to net surplus or deficit on the provision of services for non-cash movements	1,422
(4,037)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(3,972)
<b>12,269</b>	<b>Net cash flows from Operating Activities</b>	<b>6,584</b>
(1,462)	<b>Investing Activities</b>	(10,334)
46	<b>Financing Activities</b>	2,413
<b>10,853</b>	<b>Net (increase)/decrease in Cash and Cash Equivalents *</b>	<b>(1,337)</b>
4,021	Cash and Cash Equivalents at the beginning of the reporting period	14,874
<b>14,874</b>	<b>Cash and Cash Equivalents at the end of the reporting period</b>	<b>13,537</b>



## Notes to the Group Accounts

The subsidiary company 'Oportunitas' has only been trading for part of the financial year 2014/15, therefore at this stage, there are not material differences to the single entity statement other than Investment Properties that require separate notes. Note 1 to the Group Accounts relating to Investment Properties is therefore shown in the table below.

### Note 1 to the Group Accounts - Investment Properties

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has purchased a number of Investment Properties for the purpose of Housing and Regeneration. Those properties are included in the Accounts for the Subsidiary company 'Oportunitas Ltd' and in the Authority's Group Balance Sheet for 2014/15.

The following table summarises the movement in the fair value of investment properties over the year for the Group.

<b>Investment Properties - Movements in Fair Value</b>	<b>2013/14 £'000</b>	<b>2014/15 £'000</b>
Balance at start of the year	4,307	1,332
Additions		
- Purchases	0	703
- Construction		
- Subsequent expenditure	19	0
Disposals	(3,011)	(40)
- Net gains / losses from the fair value adjustments	17	132
Transfers		
- to / from Inventories		
- to / from Property, Plant and Equipment	0	0
	<b>1,332</b>	<b>2,127</b>

## GLOSSARY OF TERMS

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**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.

**Audit Commission** - An independent body created by the Local Government Finance Act 1982 with responsibility for the external audit of all local authority accounts.

**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.

**Business Rate Retention** – A proportion of Business Rate income (Non-Domestic Rates) retained between the Authority and its preceptors after payment of tariff and levies (Levy rate paying Authority) or top-up if in a Safety net position.

**CMT – Chief Executive's Management Team** – Senior Management Reporting Structure

**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 Property, Plant and Equipment, 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 Department of Communities and Local Government (DCLG) or Central Government.

**Componentisation** – Assets that have been recognised in their designated components and useful lives applied to each separate component for depreciation purposes.

**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.

## GLOSSARY OF TERMS

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**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 Capital Receipts** - 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.

**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** – The amount at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

**Finance Lease** – a lease that transfers substantially all of the risks and rewards of ownership of a Property, Plant and Equipment 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.

## GLOSSARY OF TERMS

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**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 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 (eg. 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.

## GLOSSARY OF TERMS

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**Remeasurements of the net defined Liability** – 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.

**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

**Revenue Outturn** – Actual income and expenditure incurred by the Authority and retained within the General Fund Reserve.

**Revenue Support Grant** - A general grant paid by the Government to help finance the cost of local government services.

## **APPENDIX A : AUDIT OPINION**

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

We have audited the financial statements of Shepway District Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund 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 2014/15.

This report is made solely to the members of Shepway District Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the 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 Chief Finance Officer and auditor**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also 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's and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword 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:

- give a true and fair view of the financial position of Shepway District Council as at 31 March 2015 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

### **Opinion on other matters**

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

### **Matters on which we report by exception**

We are required to report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

#### **Respective responsibilities of the Authority and the auditor**

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy,

efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place 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 arrangements for securing economy, efficiency and effectiveness in the 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, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for 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 2015.

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 had put in place proper arrangements to secure 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 published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, Shepway District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.



## **Certificate**

We certify that we have completed the audit of the financial statements of Shepway District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Emily Hill

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

Grant Thornton House,  
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Euston Square,  
London  
NW1 2EP

29 September 2015



**Folkestone**  
Hythe & Romney Marsh  
Shepway District Council



[www.shepway.gov.uk](http://www.shepway.gov.uk)