

Statement of Accounts
for the Year Ended
31 March 2007

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Director of Corporate Services



THE STATEMENT OF ACCOUNTS

CONTENTS

Explanatory Foreword – Introduction and Budget Strategy	<u>1</u>
-- Differences between plans and outturn.....	<u>2</u>
Statement of Accounting Policies	<u>5</u>
Core Financial Statements-	
Income and Expenditure Account	<u>11</u>
Statement of Movement on the General Fund Balance	<u>12</u>
Statement of Total Recognised Gains and Losses	<u>13</u>
Balance Sheet	<u>14</u>
Cash Flow Statement	<u>15</u>
Notes to the Core Financial Statements-	
Notes 1-15 (generally relating to Income and Expenditure Account).....	<u>16</u>
Notes 16-31 (generally relating to Balance Sheet).....	<u>21</u>
Notes 32-34 (generally relating to Balance Sheet).....	<u>28</u>
Note 35 (movements on Reserves)	<u>29</u>
Notes 36-40 (relating to Cash Flow Statement).....	<u>33</u>
Housing Revenue Account Income and Expenditure Account	<u>35</u>
Statement of Movement on the Housing Revenue Account Balance	<u>36</u>
Notes to the Housing Revenue Account.....	<u>37</u>
Collection Fund Accounts	<u>40</u>
Notes to Collection Fund Account (New and Old Collection Fund Element).....	<u>41</u>
Notes to Collection Fund Account (Council Tax Base and Business Rates).....	<u>42</u>
Statement of Responsibilities for the Statement of Accounts	<u>43</u>
Statement of Internal Control & Corporate Governance	<u>44</u>

THE STATEMENT OF ACCOUNTS

EXPLANATORY FOREWORD

1. INTRODUCTION

1.1. Changes to the Statement of Accounts

There have been some considerable changes to the statement in 2006/07 in order to make it more closely aligned with commercial accounts (in accordance with the 2006 code of practice). An income and expenditure account for both the general fund and housing revenue accounts has been introduced to show a "profit/loss" similar to commercial accounts. However, in order to avoid any impact on council taxation and housing rents an additional reconciliation account follows, which shows the additional entries that are necessary to reconcile these accounts back to the traditional general fund and housing revenue account balances.

1.2. Contents of Statement of Accounts

The council's accounts for the year 2006/07 are set out on pages 11 to 43. They have been completely **re-ordered** according to the 2006 code of practice.

They consist of:

The core financial statements:

- (a) the **Income and Expenditure Account** – the council's main revenue account, covering income and expenditure on all services.
- (b) the **Statement of Movement on the General Fund Balance** – reconciles the Income and Expenditure account to the General Fund Balance.
- (c) the **Statement of Total Recognised Gains and Losses** – brings together all the gains and losses of the council for the year.
- (d) the **Balance Sheet** – which sets out the financial position of the council on 31st March 2007.
- (e) the **Cash Flow Statement** – which summarises the total movement of the council's funds.

The notes to all these core financial statements then follow. Then

- (f) the **Housing Revenue Account Income and Expenditure Account** – which shows income and expenditure on council housing.
- (g) the **Collection Fund Accounts** – which show income from council tax, business ratepayers and residual community charge items and precept payments to Kent and Canterbury councils.
- (h) the Statement of Responsibilities for the Statement of Accounts.

1.3. These accounts are supported by the Statement of Accounting Policies, (set out on pages 5 to 10) which follows this Foreword, the Statement of Internal Control (pages 44 to 60) and various notes to the accounts.

1.4. This Foreword (pages 1 to 4) provides a brief explanation of the council's outturn financial position for 2006/07 and budget strategy for 2007/08.

2. BUDGET STRATEGY IN 2007/08

The council's budget preparations have been developed over the course of three years in order to present estimates for 2007/08-2009/10 to Executive on 25 January 2007 and Full Council on 22 February 2007. This process included a series of councillor meetings (star chambers) with Heads of Service to assess essential growth based on corporate plan targets and actions, and on proposals for savings. It also took account of the feedback on budget consultation undertaken by Research for Today using SIMALTO methodology.

The key strategic approach, within which the exercise was conducted, in terms of budgeting, consisted of the following elements:

- (a) To provide a budget which meets the key priorities of the Corporate & Best Value Performance Plans and achieves a sustainable financial position, taking account of the council's ongoing commitments and ambitions.
- (b) To eliminate drawing on the revenue budget in this plan period.

2. BUDGET STRATEGY IN 2007/08 (continued)

- (c) To eliminate the negative contingency.
- (d) To address issues raised in the comprehensive performance assessment inspection.
- (e) To take account of changes in revenue support from government as a result of changes in the funding formula and 2001 census data.
- (f) To take account of changes in capital finance arrangements.

With the threat of capping, the Executive and council considered the position and made changes which enabled the council to achieve only a 3% council tax increase.

3. DIFFERENCES BETWEEN PLANS AND OUTTURN FOR 2006/07

The purpose of this statement is to give an indication in broad terms of the main differences between plans and outturn for 2006/07 for General Fund and Housing Services and the reasons for those differences.

3.1. General Fund Revenue Expenditure

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

	Original Estimate	Approved Estimate	Actual	Difference from approved
	£ ' 000	£ ' 000	£ ' 000	£ ' 000
Expenditure				
Committee's net expenditure	19,562	19,884	19,409	-475
Add : Parish precepts	462	462	462	0
Total Expenditure	20,024	20,346	19,871	-475
Income				
Revenue support grant	1,905	1,905	1,905	-
NNDR allocation	9,828	9,828	9,828	-
Met by local council taxpayers	8,291	8,291	8,291	-
Collection fund surplus	0	0	0	-
Total Income	20,024	20,024	20,024	-
Deficit / surplus(-) for the year (i.e. amount funded from balances)	0	322	-153	-475
Balance brought forward	2,035	2,035	2,035	-
Balance carried forward	2,035	1,713	2,188	-475

The overall position for the financial year 2006/07 was as follows:	£ ' 000
Original Budget (excluding Parish Precepts)	19,562
Underspendings on items in the 2005/06 budget which were carried forward into 2006/07. (approved at Executive Committee on 20 July 2006)	322
Approved budget for 2006/07	19,884
Actual expenditure	19,409
Net underspend	-475

Major variations between Actual and Approved Budget were: **£ ' 000**

Underspendings

Departmental savings	-371	
(Chief Executive -48, Corporate Services -168, Community & environment -155)		
Reduced interest payable	-190	
Community development (-55), Housing general fund (-32)	-87	
Superannuation backfunding	-57	
Corporate contingencies	-49	
Museums (-34), Outdoor sports centres (-35)	-69	
Concessionary fares	-23	-846

3.1. General Fund Revenue Expenditure (continued)

Major variations between Actual and Approved Budget (continued):	£ ' 000
b/f from previous page	-846
Additional Income	
Additional Housing Benefit subsidy	-454
Interest receipts due to higher rates, good cash-flow management & slippage	-420
Development control income	-117
Recycling - contract savings & increased income	-106
Westgate Hall & Kings Hall - operational surplus compared to budget	-66
	<u>-2009</u>
Offset by :	
Additional contribution to reserves	531
Serco contract settlement in respect of recycling	238
Car park income shortfall	166
Commercial and Industrial estate rent income shortfall	144
Increase in PCN Bad Debt provision	131
Property Services non-general fund income - under recovery	96
Marlowe Theatre - overall deficit	72
Sponsorship	41
Beach Hut Sites (35), Museums income shortfall (30)	65
Other (Chief Executive -39, Community & environment -11)	50
	<u>-475</u>
NET UNDERSPEND	-475

Carry Forwards

It will be requested that this underspend of £475k be carried forward at Executive on 5 July 07.

3.2. Housing Revenue Expenditure

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

	Original Estimate	Revised Estimate	Actual	Difference from Revised
	£ ' 000	£ ' 000	£ ' 000	£ ' 000
Expenditure				
Repairs and maintenance	3,768	3,717	3,694	-23
Supervision and management etc. (incl. rent, rates & contribution to reserves & bad debt provision)	5,810	5,702	5,494	-208
Housing subsidy payable	3,465	3,483	3,533	50
Interest and similar charges	553	511	482	-29
Depreciation charge plus MRR transfer	3,691	3,671	3,671	0
Capital expenditure charged to revenue	1,515	1,370	1,390	20
Total Expenditure	18,802	18,454	18,264	-190
Income				
Gross rent income	17,511	17,583	17,633	-50
Charges for services & other income	1,166	1,210	1,311	-101
Interest on mortgages and balances	144	225	280	-55
Total Income	18,821	19,018	19,224	-206
Surplus(-) / deficit for the year	-19	-564	-960	-396
Balance brought forward	4,380	4,729	4,729	-
Balance carried forward	4,399	5,293	5,689	-396

Housing resource accounting introduced the need to charge depreciation on council dwellings which was initially covered by additional housing subsidy.

Note : MRR = major repairs reserve.

3.3. Capital Expenditure

Capital expenditure relates to spending on assets which last for more than one year. The city council spent £16,095,000 on capital schemes in 2006/07. This was financed by grants, capital receipts and revenue with the balance of £1,502,000 from borrowing.

There was slippage in the general fund capital programme, mainly on the Marlowe Theatre, Palace Street and Housing grants.

	Original Estimate	Approved Estimate incl. c/f's & addns.	Actual	Difference from Current
	£ ' 000	£ ' 000	£ ' 000	£ ' 000
Housing capital	5,730	5,605	5,619	14
Coast protection capital	5,130	4,078	4,348	270
Other general fund capital	7,799	7,813	6,128	-1,685
Total Capital Expenditure	18,659	17,496	16,095	-1,401

4.1 Future Capital Expenditure

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

4.2 Borrowing

The council's debt outstanding decreased from £24.9m in March 2006 to £23.8m in March 2007, whilst its investments increased from £25.9m to £40.6m - an increase in net investments of £15.8m. Over 99% of the council's debt is with the Public Works Loan Board and 20% of its investments are held by an investment manager. The average interest rate for new borrowing in the year was 4.16%.

5. Pensions liability

The statements have to show Canterbury's assessed share of any liability in the KCC superannuation fund. Thus note 15 to the core financial statements on page 20 of the statement shows that the total value of liabilities (i.e. future commitments from the fund) is £133m whereas the estimated assets are valued at £83m - a net deficit of £50m - which is being made up over a number of years by increasing the rates at which contributions are payable into the fund.

6. Conclusion

In a regime of tight revenue controls imposed by the Government, the city council has substantially achieved its revised budget aims. There are underspendings which result from slippage in programmes (which will be carried forward) or which reflect the cautious attitude to spending which is warranted in the circumstances.

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

STATEMENT OF ACCOUNTING POLICIES

1. GENERAL PRINCIPLES

The accounting convention adopted is historical cost as modified by the revaluation of certain categories of assets.

The accounts are prepared in accordance with the following fundamental qualitative principles:

Relevance, Reliability, Comparability and Understandability.

The following accounting concepts have been given precedence:

- i) Materiality – i.e. is the financial information significant enough to justify its inclusion in the financial statement?
- ii) Going concern – the accounts are prepared on the assumption that the authority will continue in existence for the foreseeable future.
- iii) Accruals – the financial statements, other than the cash flow statement, have been prepared on an accrual basis i.e. non-cash effects of transactions are reflected in the accounting period in which those effects are experienced and not in the period in which any cash is received or paid.
- iv) Legislative requirements – the statements conform to the “Code of Practice on Local Authority Accounting in the United Kingdom - A Statement of Recommended Practice 2006” (the 2006 SORP), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This is recognised by statute [The Accounts and Audit Regulations 2003 and by sections 41 and 42 of the Local Government and Housing Act 1989] as representing proper accounting practices. This includes compliance with the Best Value Accounting Code of Practice which was introduced with effect from 1 April 2000. The code is based on both approved accounting standards, known as Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs) approved by the Accounting Standards Board.

2. INTANGIBLE FIXED ASSETS

Expenditure on assets that do not have physical substance, but are identifiable and controlled by the council (e.g. software licences) is capitalised when it will bring benefits to the council for more than one financial year. The balance is amortised (i.e. written-down) to the relevant service revenue account on a straight-line basis over 5 years. Intangible assets are included in the balance sheet at historical costs, net of the amount written-down to revenue.

3. TANGIBLE FIXED ASSETS

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

3.1 Recognition and accruals

All expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the council and the services that it provides for more than one financial year.

3.2 Valuation methods

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by The Royal Institution of Chartered Surveyors (RICS). Fixed assets are classified into groupings required by the 1993 Code of Practice on Local Authority Accounting. They have been valued on the following bases:

STATEMENT OF ACCOUNTING POLICIES (continued)

- land, operational properties and other operational assets are included in the balance sheet at the lower of net current replacement cost and net realisable value.
- council dwellings are included on an open market basis but discounted to allow for the "Right to Buy" valuations.
- non-operational assets, i.e. investment properties and assets that are surplus to requirements, are included in the balance sheet at the lower of net current replacement cost and net realisable value.
- infrastructure assets and community assets are included in the balance sheet at historical costs, net of depreciation. If historical cost information was not available, the current cost has been discounted back to the date of acquisition, using the retail price index.

3.3 Revaluations

Subsequent revaluations of fixed assets are planned at five yearly intervals, for land and buildings, community assets and investment properties, although material changes to asset valuations will be adjusted in the interim period, as they occur.

3.4 Impairment

The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- a. where attributable to the clear consumption of economic benefits – the loss is charged to the relevant revenue account
- b. otherwise – written off against the Fixed Asset Restatement Reserve

3.5 Disposals (and Capital Receipts)

When an asset is disposed of, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account 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).

Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the government. (It is shown in the statements as "Contribution to housing pooled capital receipts"). The balance of receipts is required to be credited to the Usable Capital Receipts reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the Statement of Movement on the General Fund Balance.

4. DEPRECIATION

FRS 15 [Tangible fixed assets] introduced a major change relating to depreciation from 1 April 2000 (and was extended to include council dwellings for 2001/02). This requires that assets other than non-depreciable land and investment properties have to be depreciated.

Depreciation is provided for assets with a finite useful life according to the following policy:

STATEMENT OF ACCOUNTING POLICIES (continued)

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

5. (GOVERNMENT) GRANTS AND CONTRIBUTIONS

Where the acquisition of a depreciating fixed asset (with a finite useful life) is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is credited initially to the government grants - deferred account (see note 30 to the core financial statements). The balance is then written-down to revenue over the useful life of the asset, to match the depreciation charged on the asset to which it relates.

Where deferred charge expenditure is financed by a government grant, the amount of the grant is credited to the deferred charge account.

6. CHARGES TO REVENUE FOR FIXED ASSETS

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

- i) depreciation attributable to the assets used by the relevant service
- ii) impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service
- iii) amortisation of intangible fixed assets attributable to the service.

The council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue (known as the "minimum revenue provision") to contribute towards the reduction in its overall borrowing requirement. (This is equal to 4% of the underlying borrowing amount measured by the adjusted Capital Financing Requirement, excluding amounts attributable to HRA activity). Depreciation, impairment losses and amortisations are therefore replaced by the minimum revenue provision in the Statement of Movement on the General Fund Balance. The difference between the two is credited or debited to the Capital Financing Account.

Up to and including the 2005/06 accounts, there was also a capital financing charge determined by applying a specified notional rate of interest to the opening net asset values, which was reversed out using an asset management revenue account to avoid any effect on council tax levels. For the 2006/07 accounts, the capital financing charge has been dropped and so there is no longer a need for an asset management revenue account. The 2005/06 comparatives have therefore been adjusted to exclude these notional interest charges.

7. DEFERRED CHARGES

Deferred charges represent expenditure that may be capitalised under statutory provisions, but which does not result in the creation of tangible assets. They include improvement grants made and feasibility studies. Deferred charges incurred during the year have been written off as expenditure to the relevant service revenue account in the year. Where the council has determined to meet the cost of the deferred charges from existing capital resources or by borrowing, a transfer to the Capital Financing Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of council tax.

STATEMENT OF ACCOUNTING POLICIES (continued)

8. LEASES

8.1 Finance Leases

Where assets were acquired under finance leases, the leasing rentals payable are charged to revenue. The cost of the assets and the related liability for future rentals payable are not shown in the balance sheet (since the value outstanding is non material), but are disclosed in note 34 to the core financial statements.

8.2 Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

9. REPURCHASE OF BORROWING

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase. However, where repurchase has taken place as part of a restructuring of the loan portfolio with substantially the same overall effect when viewed as a whole, gains and losses are recognised on the balance sheet and written down to revenue on a straight-line basis over the term of the replacement loans.

10. CURRENT ASSETS AND LIABILITIES

10.1 Debtors and Creditors

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

10.2 Stocks

Stocks are included in the balance sheet at actual cost or net realisable value if lower.

10.3 Investments

Investments are shown as the original purchase price plus any interest capitalised in later years and real property is shown at cost. Further detail is in Note 28 to the core financial statements.

11. RESERVES

The council's reserves include earmarked reserves set aside for specific policy purposes, and balances which represent resources set aside for purposes such as general contingencies and cash flow management. The purposes of the council's earmarked reserves are explained in note 35d to the core financial statements. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in the Income and Expenditure Account. An appropriation is made from the reserve back to the General Fund Balance so that there is no impact on council tax.

STATEMENT OF ACCOUNTING POLICIES (continued)

12. COSTS OF SUPPORT SERVICES (CENTRAL DEPARTMENTS' EXPENSES)

All costs of management and administration are fully allocated to services. The bases of allocation used for the main costs of management and administration are outlined below:

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

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

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

Non Distributed Costs – holds the cost of discretionary benefits awarded to employees retiring early.

13. PENSION COSTS

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

These contributions were based on a formal actuarial valuation as at 31 March 2004. Under superannuation regulations, contribution rates are set to meet 100% of the overall liabilities of the fund, although increases are sometimes phased in over a number of years. There was an increase in the employer's contributions rate stemming from the 2004 valuation, which took effect from 1 April 2005. The next formal valuation of the fund is due at 31 March 2007 and any change in contribution rates as a result of that valuation will take effect from 1 April 2008.

The implementation of FRS 17 accounting policies from 2003/04 onwards has had a material effect on substantial parts of the statement of accounts and represented a change to those applied in prior years. Previous policy was to recognise liabilities in relation to retirement benefits only when employer's contributions became payable to the pension fund or payments fell due to the pensioners for which the authority was directly responsible. The new policy recognises these liabilities immediately.

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

- i) The liabilities of the Kent pension scheme attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of earnings for current employees.
- ii) Liabilities are discounted to their values at current prices, using a discount rate of 5.4% (based on the indicative rate of return on the iBoxx Sterling Corporates Index, AA over 15 years, at the FRS17 valuation date).
- iii) The assets of the Kent pension fund attributable to the council are included in the balance sheet at their fair value:

STATEMENT OF ACCOUNTING POLICIES (continued)

13. PENSION COSTS (continued)

- i) Quoted securities – mid-market value
 - ii) Unquoted securities – professional estimate
 - iii) Unitised securities – average of the bid and offer rates
 - iv) Property – market value
- iv) The change in the net pensions liability is analysed into seven components:
- i) Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked
 - ii) Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
 - iii) Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account
 - iv) Expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account
 - v) Gains / losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
 - vi) Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses
 - vii) Contributions paid to the Kent pension fund – cash paid as employer's contributions to the pension fund.

Statutory provisions limit the council to raising council tax to cover the amounts payable by the council to the pension fund in the year. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund (including accruals).

14. VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs, and all VAT paid is recoverable from them.

15. STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

This statement, which was introduced by the 1995 code, sets out the respective responsibilities of the authority and the Director of Corporate Services for the accounts.

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2007

2005/06 Net Expenditure As restated		2006/07 Gross Expenditure	2006/07 Income	2006/07 Net Expenditure
£' 000		£' 000	£' 000	£' 000
	EXPENDITURE ON SERVICES (Note 1)			
	Cultural, Environmental & Planning Services			
1,590	Culture and heritage	2,376	-675	1,701
2,895	Recreation, sport & open spaces	3,644	-485	3,159
809	Tourism	1,302	-405	897
752	Coast protection	1,119	-503	616
2,513	Waste collection & disposal	3,072	-467	2,605
4,276	Other environmental services	5,016	-742	4,274
3,798	Planning & development services	7,031	-3,322	3,709
	Highways, Roads & Transport Services			
291	Highways	707	-393	314
-1,263	Parking services & public transport	5,779	-6,165	-386
	Housing Services			
-3,347	Housing Revenue Account (Note 2)	15,654	-19,000	-3,346
302	Housing benefits payments & administration	28,698	-28,524	174
1,141	Other housing services (non HRA)	1,434	-305	1,129
	Central Services			
977	Local tax collection costs	1,512	-504	1,008
172	Council tax benefits	8,980	-8,807	173
-23	Other central services	663	-459	204
2,992	Corporate and Democratic Core	4,256	-1,711	2,545
60	Non Distributed Costs (Note 15)	10	0	10
17,935	NET COST OF SERVICES	91,253	-72,467	18,786
	Corporate income and expenditure			
-659	Surplus on the disposal of fixed assets	0	-6,578	-6,578
487	Parish council precepts & IDB levy	567	0	567
-2,490	Surplus from trading operations (Note 3)	6,879	-9,046	-2,167
1,676	Contribn.of housing capital receipts to Govt pool	1,592	0	1,592
1,577	Interest payable & premium on repurch of borr.	1,493	0	1,493
-1,274	Interest and investment income	50	-1,891	-1,841
1,890	Pensions interest cost and expected return on pension assets (Note 15)	1,380	0	1,380
19,142	NET OPERATING EXPENDITURE	103,214	-89,982	13,232
	Sources of finance			
-7,911	Demand on the Collection Fund (Note 7)			-8,291
0	(incl. transfers for the surplus at 31.3.05)			0
	General government grants -			
-6,552	Revenue support grant			-1,905
-533	LABGI grant			-1,407
-4,029	Distribution from non-domestic rate pool			-9,828
117	SURPLUS (-) / DEFICIT FOR THE YEAR			-8,199

The 2005/06 comparatives have been restated by eliminating notional interest from the previous figures and allocating deferred government grants to services.

The Income and Expenditure Account shows the council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last year. However, the authority is required to raise council tax on a different accounting basis, the main differences being:

- 1) Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- 2) The payment of a share of housing capital receipts to the Government counts as a loss in the Income and Expenditure Account, but is met from the usable capital receipts balance rather than council tax.
- 3) Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.
- 4) The above includes the notional profit from the sale of fixed assets compared to their net book value. The major items are the "profit" on the Kingsmead site (£5,973k) and 16 St Radigunds (£502k). In practice this "profit" cannot be credited to revenue and is reversed out in the statement on the next page. The major item in 2005/06 was the Maybrook site (£637k).

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE for the YEAR ENDED 31 MARCH 2007

The General Fund Balance compares the council's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

2005/06 Net Expenditure		2006/07 Net Expenditure
£' 000		£' 000
117	Surplus (-) / Deficit for the year on the Income & Expenditure Account	-8,199
-224	Net additional amount required by statute & non-statutory proper practices to be debited or credited to the General Fund Balance for the year.	8,046
-107	Increase (-) / Decrease in General Fund Balance for the year	-153
-1,928	GENERAL FUND BALANCE B/F AT 1 APRIL	-2,035
-2,035	GENERAL FUND BALANCE C/F AT 31 MARCH	-2,188

RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

2005/06 Net Expenditure		2006/07 Net Expenditure
	Amounts included in the Income and Expenditure Account, but required by statute to be <u>excluded</u> when determining the Movement on the General Fund Balance for the year.	
£' 000		£' 000
-57	Amortisation of intangible fixed assets.	-76
-2,583	Depreciation and impairment of fixed assets.	-2,445
589	Government grants deferred and other capital contributions w/out to revenue	900
-1,127	Deferred charges written down to be financed from capital resources (Note 18)	-837
659	Net gain / loss(-) on sale of fixed assets	6,578
-4,470	Net charges made for retirement benefits in accordance with FRS17 (Note 15)	-4,710
-6,989		-590
	Amounts <u>not</u> included in the Income and Expenditure Account, but required by statute to be <u>included</u> when determining the Movement on the General Fund Balance for the year.	
640	Minimum revenue provision for capital financing	726
953	Capital expenditure charged in-year to General Fund Balance	1,827
-1,676	Contribution from usable capital receipts reserve to meet payments to the Housing Capital Receipts Pool	-1,592
3,450	Employer's contributions payable to the Kent Pension Fund and retirement benefits payable direct to pensioners(Note 15)	3,790
3,367		4,751
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year.	
1,553	Transfer to / from (-) HRA balances	960
493	Transfer to / from major repairs reserve (Note 3 to HRA)	427
1,352	Net transfer to / from earmarked reserves (Note 35d)	2,498
3,398		3,885
-224	Net additional amount required to be debited or credited to the General Fund balance for the year.	8,046

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This statement, introduced by the 2006 code, brings together all the gains and losses of the council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of assets and the re-measurement of the net liability to cover the cost of retirement benefits.

2005/06		2006/07
£' 000		£' 000
	Surplus (-) / deficit for the year:	£' 000
117	- Income and Expenditure Account	-8,199
202	- Collection Fund Revenue Account	141
55,626	Surplus (-) / loss arising on revaluation of fixed assets (see note 35a to core financial statements)	-29,077
0	Impairment losses on fixed assets	0
2,506	Actuarial gains (-) / losses on pension fund assets & liabilities (see note 15 to core financial statements for details)	-7,240
58,451	Total recognised gains (-) and losses	-44,375

This reconciles to the change in the "Total Equity" of the balance sheet as follows:

	Total Equity		
£' 000			£' 000
404,842	At 31 March 2006	At 31 March 2007	449,217
463,293	(**) At 31 March 2005	At 31 March 2006	404,842
58,451	Change in Total Equity		-44,375

(**) After restatement. £469,055k as per the 2005/06 statement, less government grant deferred account £7,180k plus deferred premiums £1,418k, which have both been moved out of the list of balances which comprise "Total Equity", to the top half of the balance sheet.

BALANCE SHEET AS AT 31ST MARCH

2006 As restated			2007	
£ ' 000	£ ' 000		£ ' 000	£ ' 000
241		NET FIXED ASSETS		
		Intangible assets	185	
		Tangible assets		
		Operational assets-		
309,518		Council dwellings	321,202	
63,980		Other land and buildings	67,438	
24,818		Infrastructure assets	28,660	
1,717		Vehicles, plant and equipment	1,671	
1,762		Community assets	1,760	
		Non-operational assets-		
67,360		Investment properties	76,510	
0		Assets under construction	281	
4,186		Surplus assets, held for disposal	5,648	
	473,582	TOTAL FIXED ASSETS		503,355
	682	Long-Term Debtors		597
	1,229	Deferred premiums on the early repayment of debt		1,546
	475,493	TOTAL LONG-TERM ASSETS		505,498
		CURRENT ASSETS		
146		Stocks in hand	167	
13,706		Debtors	10,235	
-3,585		Less : Provision for Bad Debts	-3,553	
376		Payments in Advance	410	
25,866		Investments (Short-term)	40,592	
407		Cash in hand	419	
	36,916			48,270
	512,409	TOTAL ASSETS		553,768
		CURRENT LIABILITIES		
11,719		Creditors	13,807	
2,310		Deposits & receipts in advance	1,731	
7,156		Short-term borrowing	3,007	
1,785		Bank overdraft	1,327	
	-22,970			-19,872
	489,439	TOTAL ASSETS LESS CURRENT LIABILITIES		533,896
		LONG-TERM LIABILITIES		
17,762		Long-term borrowing	20,761	
10,674		Government grants deferred	14,173	
242		Deferred capital receipts	155	
49		Deferred discounts on early rept.of debt	40	
55,870		Liability related to defined benefit pension scheme	49,550	
	-84,597			-84,679
	404,842	TOTAL ASSETS LESS LIABILITIES		449,217
		FINANCED BY:		
	£ ' 000			£ ' 000
	364,191	Fixed asset restatement account		385,924
	78,565	Capital financing account		82,332
	3,074	Usable capital receipts reserve		12,159
	-55,870	Pensions reserve		-49,550
	188	Major repairs reserve		188
	7,613	Earmarked reserves		10,111
		Revenue Balances		
		General Fund	2,188	
		Housing Revenue Account	5,689	
		Collection Fund Revenue Account	176	
2,035				
4,729				
317				
	7,081			8,053
	404,842	TOTAL EQUITY		449,217

The 2005/06 comparatives for total equity and total assets less liabilities have been restated by moving government grants deferred above the line to long-term liabilities and deferred premiums to long-term assets.

CASH FLOW STATEMENT

2005/06		2006/07		
£' 000		£' 000	£' 000	£' 000
	REVENUE ACTIVITIES			
	CASH OUTFLOWS			
22,401	Cash paid to and on behalf of employees	24,141		
31,812	Other operating cash payments	31,879		
44,198	Kent County Council precept paid	46,490		
5,588	Kent Police Authority precept paid	5,889		
2,880	Kent & Medway Fire Authority Precept paid	3,006		
14,594	Housing Benefit paid out	15,678		
35,896	National non-domestic rates paid to national pool	39,391		
1,676	Payments to the capital receipts pool	1,592		
159,045			168,066	
	CASH INFLOWS			
6,063	Net rents (after rebates)	6,124		
53,067	Council tax receipts	56,051		
37,682	Local Non-domestic rate receipts	40,340		
4,029	Non-domestic rate receipts from national pool	9,828		
6,552	Revenue support grant	1,905		
25,546	DWP grants for housing rebates	27,787		
6,418	DWP grant for council tax rebates	9,629		
3,521	Other government grants (Note 39)	4,857		
19,919	Cash received for goods and services	22,328		
3,087	Other operating cash receipts	806		
-165,884			-179,655	
-6,839	REVENUE ACTIVITIES NET CASH FLOW (Note 36)			-11,589
	RETURNS ON INVESTMENTS & SERVICING OF FINANCE			
	CASH OUTFLOWS			
1,301	Interest paid		1,355	
	CASH INFLOWS			
-1,280	Interest received		-1,420	
21	NET INTEREST			-65
	CAPITAL ACTIVITIES			
	CASH OUTFLOWS			
10,916	Purchase of fixed assets	13,805		
1,968	Deferred charges	2,290		
12,884			16,095	
	CASH INFLOWS			
4,463	Sales of fixed assets	13,921		
3,272	Capital grants received (Note 40)	6,817		
68	Other capital cash receipts	49		
-7,803	(Principal repayments of Misc.Loans etc)		-20,787	
5,081	CAPITAL ACTIVITIES NET CASH FLOW			-4,692
-1,737	NET CASH INFLOW/OUTFLOW BEFORE FINANCING			-16,346
	MANAGEMENT OF LIQUID RESOURCES			
5,841	Net increase / decrease in short-term investments (Note 37)			14,726
	FINANCING			
	CASH OUTFLOWS			
0	Repayments of long-term borrowing (Note 37)		2,001	
0	Repayments of short-term borrowing (Note 37)		7,149	
	CASH INFLOWS			
-2,999	New long-term loans raised (Note 37)		-8,000	
-10	New short-term loans raised (Note 37)		0	
-3,009	FINANCING NET CASH FLOW			1,150
1,095	NET INCREASE (-) / DECREASE IN CASH (Note 38)			-470

NOTES TO THE CORE FINANCIAL STATEMENTS

1. EXPENDITURE ON SERVICES

The analysis of services contained in this summary account follows the Best Value Accounting Code of Practice (BVACOP). Capital charges for depreciation are included in expenditure on services.

2. HOUSING REVENUE ACCOUNT

Reconciliation of figures above to Housing Revenue Account net cost of services in 2005/06 & 2006/07
The 2005/06 figures have been restated by eliminating notional interest and the item 8 charge.

2005/06 Net		2006/07 Expenditure	2006/07 Income	2006/07 Net
£' 000		£' 000	£' 000	£' 000
-3,477	Expenditure & income per HRA A/C's	15,588	18,947	-3,359
181	Add: Transfers from reserves	66	0	66
-51	Less: Transfers to reserves	0	53	-53
-3,347	TOTAL	15,654	19,000	-3,346

3. TRADING UNDERTAKINGS

The council operates the following trading undertakings:

2005/06 Net As restated	Name of Trading Undertaking	2006/07 Expenditure	2006/07 Income	2006/07 Net
£' 000		£' 000	£' 000	£' 000
	Cultural, Environmental & Planning Services			
734	Marlowe Theatre	5,020	-4,032	988
176	Kings Hall	177	-57	120
67	Westgate Hall	169	-121	48
21	Bandstand	49	-22	27
18	Pier Head	-2	0	-2
-82	Markets (incl. boot fairs)	282	-279	3
	Highways, Roads & Transport Services			
-48	Whitstable Harbour	580	-653	-73
	Trading Services			
-544	Industrial Estates	85	-611	-526
-2,832	Other Estates	519	-3,271	-2,752
-2,490	TOTAL	6,879	-9,046	-2,167

The 2005/06 comparatives have been restated by eliminating notional interest from the previous figures.

4. BUILDING CONTROL TRADING ACCOUNT

The Local Authority Building Control Regulations require the disclosure of information re the setting of charges for the administration of the building control function. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control unit divided between the chargeable and non-chargeable activities.

2005/06 Chargeable	Building Regulations Charging Account	2006/07 Chargeable	2006/07 Non Chargeable	2006/07 Total
£' 000		£' 000	£' 000	£' 000
601	Expenditure	620	104	724
637	Income	600	6	606
-36	Surplus(-) / Deficit for Year	20	98	118

The building control fee was last increased in April 2004 and there are no increases planned for 2007/08. Decisions made in 2005 to improve the standard of service have utilised the previous surplus.

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

5. CONTINGENT LIABILITY

In May 2007, HM Revenue & Customs raised an assessment for £459,679 in respect of VAT which they deem to be due on Park & Ride income, on the basis that it is purely a parking fee and therefore subject to VAT. This is being strongly contested and we anticipate a favourable outcome as our tax advisers consider this should be zero-rated transport. This sum covers the period April 2004 to January 2007. The additional figure for February & March 2007 comes to £29,631.

6. SINGLE REGENERATION BUDGET (SRB) GRANT

Until 2004/05, the council was the accountable body for the Northgate Regeneration SRB5 scheme. The other partnership organisations were : Christ Church College, Canterbury College, Canterbury Volunteer Bureau, Chaucer House, East Kent (EK) Council for Voluntary Service, EK Community NHS trust, Enterprise Agency of EK, Kent County Constabulary, Kent County Council, lbl.co.uk, Northgate under 5's Project, Northgate Traders Association, Northgate Ward Development Group, Parkside school, Querns' Community Fund.

Until 2004/05, the council was also the accountable body for the Herne Bay & Whitstable Coastal Regeneration SRB6 scheme.

The other partnership organisations were : Canterbury Christ Church University College, Canterbury College, East Kent Council for Voluntary Service, Enterprise Agency for East Kent, Kent Community Housing Trust, Herne Bay and District Resident's Association, Herne Bay Youth Initiative, Home-start Canterbury and Coastal, Kent County Constabulary, Kent County Council (social services) Enterprise agency of East Kent, Whitstable Savings Club, Whitstable town centre co-ordinator, Herne Bay town & seafront co-ordinator and Whitstable Umbrella community centre.

Both SRB5 and SRB6 ended in 2004/05.

6a. KENT BENEFITS PARTNERSHIP

The council is the accountable body for the Kent Benefits Partnership. The other partnership bodies are all the district councils in Kent, Medway Unitary Authority and Kent County Council.

Total expenditure was £ 636,000 and total income received in the year was £ 569,000, with the balance of £67,000 due to be received in 2007/08.

7. COLLECTION FUND

The council has to precept on the collection fund, in the same way as Kent County council. The actual amount transferred from the collection fund in 2006/07 was £8.291 million in line with the council's original budget. (2005/06 - £7.911 million).

This amount includes £462,000 for Parish Precepts (2005/06 - £387,000) and £0 for the collection fund transfer in 2006/07 for the surplus at 31.3.06. (2005/06 - £35,000).

8. AUDIT FEES

The council incurred the following fees relating to external audit and inspection:

2005/06		2006/07
£' 000	Fees payable to the Audit Commission for	£' 000
112	External audit services carried out by the appointed auditor	117
0	Statutory inspection	0
16	Certification of grant claims and returns	27
128	Total	144

9. LOCAL AUTHORITY (GOODS AND SERVICES) ACT 1970

Income and expenditure under this heading relates to goods, services, use of vehicles and maintenance works supplied by the council for another public body. There were no significant items in 2006/07.

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

10. SECTION 137 EXPENDITURE (POWER OF WELL-BEING)

Section 137 of the Local Government Act 1972 and Section 2 of the Local Government Act 2000 (Power of Well-Being), allow local authorities to incur expenditure which in their opinion is in the interests of and will bring direct benefit to their area or inhabitants. Expenditure under these sections cannot be incurred on purposes which are authorised or limited by other legislation. Expenditure under these sections in any financial year must not exceed the product of £1.90 multiplied by the relevant population of the area. Local authorities must publish a separate account for this expenditure.

Expenditure incurred by the city council in 2006/07 and included elsewhere in these accounts totals £137,000 (2005/06 - £150,000) which is well within the limit allowed of £273,000 (2005/06 - £269,000).

2005/06	Category of Expenditure	2006/07
£' 000	<u>GRANTS & CONCESSIONARY RENTS</u>	£' 000
126	Citizens Advice Bureaux	111
24	Whitstable Umbrella	23
0	Canterbury Umbrella	3
150	TOTAL	137

11. PUBLICITY

Expenditure under this heading relates to Publicity (as defined under Section 5 of the Local Government Act 1986). The main items were as follows:

2005/06	Category of Expenditure	2006/07
£' 000		£' 000
137	Recruitment advertising	150
68	Publicity relating to tourism activities	67
73	Publicity and promotions and corporate marketing	33
2	Other advertising and publicity	54
280	TOTAL	304

12. OFFICERS' EMOLUMENTS

The number of employees whose remuneration including termination payments, but excluding pension contributions, was over £50,000, in bands of £10,000 were :

2005/06	Remuneration Band	Number of Employees
10	£ 50,000 - £ 59,999	8
2	£ 60,000 - £ 69,999	7
1	£ 70,000 - £ 79,999	0
2	£ 80,000 - £ 89,999	2
1	£ 90,000 - £ 99,999	0
0	£110,000 - £119,999	1
16	TOTAL	18

13. MEMBERS' ALLOWANCES

The total of members' allowances paid in the year was £ 365,000. (2005/06 - £356,000)
 Figures for PC allowances, travel & subsistence and national insurance are included from 2005/06.

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

14. RELATED PARTY TRANSACTIONS

Transactions during the year and year-end balances with related parties are as follows:

	Receipts	Payments	Debtors at year-end	Creditors at year-end
	£ ' 000	£' 000	£' 000	£' 000
Central Government				
Revenue grants	52,105		946	
Capital grants	5,280		650	
Kent County Council - Precept		46,490		0
Kent Police Authority - Precept		5,889		0
Kent & Medway Fire Authority Precept		3,006		0
Kent County Council Pension Fund		3,470		363
[Payment of employer's superannuation contributions in respect of employees]				

15. PENSION COSTS

The council participates in the Local Government Pension Scheme administered by Kent County Council. This is a defined benefit statutory scheme, meaning that the council and employees pay contributions into a fund, calculated at a level estimated to balance the pensions liabilities with investment assets. The scheme makes payments in the year to retired officers. The contributions were based on a formal actuarial valuation as at 31 March 2004. Under superannuation regulations, contribution rates are set to meet 100% of the overall liabilities of the fund. There was an increase in the employer's contributions rate stemming from the 2004 valuation, which took effect from 1 April 2005. The next formal valuation of the fund is due at 31 March 2007.

In accordance with FRS17, the council's current service contributions of £ 1,908,000 (2005/06 - £1,837,000), are replaced by Current Service Cost of £3,320,000 (2005/06 - £2,520,000). Past Service Costs are £ 0 (2005/06 - £0). The impact of settlements & curtailments is £10,000 (2005/06 - £60,000).

In addition in-year capitalised payments of £21,100 (2005/06 - £29,000) were made to the fund in respect of early retirement and discretionary added years.

The service costs figures are based on regulations as they currently stand, i.e. they allow for members to retire on their "Rule of 85" age, as set out in the Local Government Pension Scheme (Amend) Regs.2005.

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

FRS17 has introduced a requirement to analyse the movement in the city council's element of the Kent pension fund - the assessed value of which is included in the balance sheet.

2005/06	Movement in Pension Deficit during the year.	2006/07
£' 000		£' 000
-52,344	Deficit at beginning of the year	-55,870
-2,520	Current Service cost (charged to consolidated revenue account)	-3,320
0	Past Service cost (charged to consolidated revenue account)	0
3,110	Employer contributions	3,470
340	Contributions in respect of Unfunded Benefits	320
-60	Impact of settlements and curtailments	-10
	Net return on assets:	
4,220	Expected return on employer assets	5,180
-6,110	Interest cost of pension scheme liabilities	-6,560
-1,890		-1,380
	Actuarial gains (loss) (in cash and as a % of total scheme assets or liabilities)	
12,200	Actual less expected return on pension scheme assets	-530 (-0.6%)
-176	Experience gains / (losses) arising on scheme liabilities	300 (0.2%)
-14,530	Changes in financial assumptions underlying the present value of the scheme liabilities	7,470
-2,506	Total actuarial gain (loss) in pension plan (-1.9%)	7,240
-55,870	Deficit at end of the year	-49,550

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

15. PENSIONS (continued)

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

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. These liabilities have been assessed by Hymans Robertson, an independent firm of actuaries.

The percentage assumptions per annum as at 31 March 2007, (2006 in brackets), are : Price increases 3.2% (3.1), Salary increases 4.7% (4.6), Pension increases 3.2% (3.1), Discount rate 5.4% (4.9).

The discount rate employed for the 2006/07 financial year is again the yield available on long-dated, high quality corporate bonds.

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

L.T.Return at 31 Mar 2006	Assets value at 31 March 2006	Assets (Employer)	Long Term Return at 31 March 2007	Assets value at 31 March 2007
% per annum	£ ' 000		% per annum	£ ' 000
7.4	55,110	Equities	7.8	58,410
4.6	9,730	Bonds	4.9	10,350
5.5	7,030	Property	5.8	8,510
4.6	6,000	Cash	4.9	6,020
6.6	77,870	Total	7.0	83,290

2006	Net Pension Liability as at 31 March	2007
£ ' 000		£ ' 000
77,870	Estimated Employer Assets (A)	83,290
133,740	Total Value of Liabilities (B)	132,840
55,870	Net Pension Liability (B) - (A)	49,550

A table showing the movement in this balance is set out in the note above. Under the requirements of FRS17, a pensions liability was created in the balance sheet. However, so that FRS17 has no effect on demands on council tax, and there is no demand on earmarked reserves, the Pensions Reserve holds an equal and opposite balance. The movements in these reserves reflect the net change in pensions liability recognised in the income and expenditure account.

Regulations laid on 30 March 2006 give retiring members the option to increase the lump-sum amount taken at retirement. The actuaries strongly believe that it is not appropriate to rush into making an allowance for commutation in the above FRS17 figures simply because it might make the FRS17 disclosures look better. They believe a more consistent approach will prove to be the more appropriate course of action.

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

16. FIXED ASSETS

Following the introduction of capital accounting, fixed assets are valued using the bases set out in note 19 below, any differences being credited or debited to the fixed asset restatement account. Infrastructure assets and community assets are included in the balance sheet at historical cost, net of depreciation.

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

Gross book value at 1 April		Additions	Disposals	Revaluations	Transfers	Gross book value at 31 March
£' 000		£' 000	£' 000	£' 000	£' 000	£' 000
353	<u>Intangible assets</u>	20	10	0	0	363
	Software licences					
	<u>Tangible assets</u>					
	Operational assets-					
309,518	Council dwellings	5,619	2,192	8,257	0	321,202
66,006	Other land & buildings	824	17	2,401	89	69,303
34,123	Infrastructure	4,683	0	-95	0	38,711
7,950	Vehicles, plant, furniture & equipment	639	841	-27	0	7,721
1,769	Community assets	0	0	0	0	1,769
	Non-operational assets -					
67,360	Investment properties	1,739	102	7,558	-45	76,510
0	Under construction	281	0	0	0	281
4,186	Surplus assets	0	5,034	6,540	-44	5,648
491,265	TOTAL	13,805	8,196	24,634	0	521,508

Net book value at 1 April		Depreciation				Net book value at 31 March
		Accum. 1 April	During year	Written out on disposals & revals.	Accum. 31 March	
£' 000		£' 000	£' 000	£' 000	£' 000	£' 000
241	<u>Intangible assets</u>	112	76	10	178	185
	Software licences					
	<u>Tangible assets</u>					
	Operational assets-					
309,518	Council dwellings	0	3,212	3,212	0	321,202
63,980	Other land & buildings	2,026	1,070	1,231	1,865	67,438
24,818	Infrastructure	9,305	746	0	10,051	28,660
1,717	Vehicles, plant, furniture & equipment	6,233	659	842	6,050	1,671
1,762	Community assets	7	2	0	9	1,760
	Non-operational assets -					
67,360	Investment properties	0	0	0	0	76,510
0	Under construction	0	0	0	0	281
4,186	Surplus assets	0	0	0	0	5,648
473,582	TOTAL	17,683	5,765	5,295	18,153	503,355

The main items of capital expenditure were:	£' 000
Council dwellings	5,619
Coast protection	5,052
Marlowe arcade redevelopment & other property services schemes	1,723
Call centre & I.T.Developments	590
Disabled facilities grants, housing assistance and private sector renewal.	876
Highways & transport	918
Leisure & culture schemes	297
Public conveniences refurbishment, play areas & other environment schemes	330
Regeneration & planning schemes & historic buildings grants	549
Other items	141
TOTAL	16,095

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

17. FIXED ASSETS and the CAPITAL FINANCING REQUIREMENT

2005/06	Capital Expenditure and Financing	2006/07	
£ ' 000		£ ' 000	£ ' 000
21,332	Opening Capital Financing Requirement		23,119
	Capital Expenditure in year:		
10,769	Operational assets	11,765	
17	Non-operational assets	2,020	
130	Intangible assets	20	
1,823	Deferred charges	2,240	
145	Long term debtors	50	
			16,095
	Sources of Finance		
-1,054	Capital receipts	-3,293	
-4,779	Government & other capital grants	-5,803	
-4,624	Revenue & reserves	-5,497	
-640	Revenue provision for repayment of loans (MRP)	-726	
			-15,319
23,119	Closing Capital Financing Requirement		23,895
	Explanation of movements in year		
911	Increase in underlying need to borrow-supported by govt.financial assistance		0
876	Increase in underlying need to borrow-unsupported by govt.financial assistance		776
1,787	Increase in Capital Financing Requirement		776

The rules for financing capital investment changed in line with the Prudential Code for Borrowing as from 1 April 2004. One of the main changes is that capital is now financed on an accrued basis, whereas previously only cash payments had been financed. Another change is the introduction of the capital financing requirement which is calculated from elements of the balance sheet (see below). The above table reconciles this calculation with movements during the year.

2005/06	Capital Financing Requirement calculation from balance sheet items	2006/07
£ ' 000		£ ' 000
473,582	Fixed Assets	503,355
682	Long term debtors	597
474,264		503,952
-364,191	Fixed Asset Restatement Account	-385,924
-78,565	Capital Financing Account	-82,332
-10,674	Government & other capital grants deferred	-14,173
-242	Deferred capital receipts	-155
20,592		21,368
2,527	Add : item A adjustment	2,527
23,119	Adjusted closing Capital Financing Requirement	23,895

18. DEFERRED CHARGES MOVEMENTS

Deferred charges represents costs to be charged to revenue in future years which are not represented by tangible fixed assets e.g. grants given to private householders for improvements. The code of practice now recommends that deferred charges are written out to revenue over 1 year.

Balance at 1 April	Category	Expd.	Govt. Grants	Write-down	Balance at 31 March
£ ' 000		£ ' 000	£ ' 000	£ ' 000	£ ' 000
0	Improvement grants	805	339	466	0
0	Historic building grants	22	0	22	0
0	Housing association grants	57	0	57	0
0	Other incl. parish council grants	1,356	1,064	292	0
0	TOTAL	2,240	1,403	837	0

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

19. FURTHER INFORMATION RE FIXED ASSETS IN THE BALANCE SHEET AT CURRENT VALUE

	Date of last valuation	Basis of valuation	Internal Valuer
Operational assets-			
Council dwellings	March 2007	A	Martin Bovingdon , FRICS
Other land & buildings	April 01 - March 2007	B	Martin Bovingdon , FRICS
Non-operational assets	April 01 - March 2007	C	Martin Bovingdon , FRICS

Bases of valuation

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

20. ASSETS HELD

Canterbury City Council owned the following assets as at 31 March :

2006	OPERATIONAL ASSETS	2007	2006 <small>As restated</small>	OPERATIONAL ASSETS (Con.)	2007
5,361	COUNCIL DWELLINGS	5,327		VEHICLES , PLANT, FURNITURE & EQUIPMENT	
	LAND				
2	Caravan sites	2	4	Light vans	4
3	Markets	3	1	Boat	1
1	Multi- storey car parks	1	1	Fork lifts	1
35	Surface car parks	35	4	Refuse freighters	4
12	Residents car parks	12		Wave, tide and recording equipment	var.
3	Park & Ride car parks	3	var.	Car park CCTV machines	var.
1	Coach park	1	var.	Lifeline machines	var.
	BUILDINGS			Trade refuse bins	var.
2	Halls	2	var.	Domestic bins	var.
1	Theatre	1	var.	Recycling bins	var.
2	Leisure centres	2			
2	Sports centre	2			
1	Swimming pool	1		COMMUNITY ASSETS	
6	Museums	6	521 ac.	Parks and recreation grounds	521 ac.
4	Civic/divisional offices	4	3	Cemeteries (land only)	3
1	Guildhall / Tower House	1	14	Allotments	14
3	Visitor information centres	3	var.	Museum exhibits and paintings	var.
32	Public conveniences	31	var.	Civic regalia	var.
9	Workshop / Stores	9	10	Historic buildings	10
1	Childrens centre	1			
1	Community centre	1		NON-OPERATIONAL ASSETS	
	INFRASTRUCTURE				
13 Mi.	of coastline, of which	13 Mi.	3	Industrial estates	3
10 Mi.	are council responsibility	10 Mi.	101	Commercially let sites	103
9 Mi.	are protected by defences	9 Mi.			
2	Cliff retaining walls	2	57	Non commercially let sites	58
2,700 m.	Riverside walls	2,700 m.			
var.	St.lighting & name plates	var.	1	Harbour (Whitstable)	1
var.	Bus shelters & seats	var.	11	Property awaiting development	11
var.	Pedestrian signs	var.	19	Surplus assets	26
4	Pedestrian areas	4	13	Vacant lands	7
var.	Footbridges	var.	0	Assets under construction	1
61,520 m.	Drains	61,520 m.			

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

21. DEPRECIATION

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

21a. COMMITMENTS UNDER CAPITAL CONTRACTS

The following significant capital contracts have been entered into by the council at 31 March 2007 which involve commitments in 2007/08 and beyond:

Scheme	Estimate 2007/08	Estimate 2008/09
	£ ' 000	£ ' 000
Palace Street - environmental improvements	499	0

22. LONG-TERM DEBTORS

Balance at 1 April	Category	Advances during year	Repaymt. during year	Write- Offs	Balance at 31 March
£ ' 000		£ ' 000	£ ' 000	£ ' 000	£ ' 000
242	Mortgages	0	87	0	155
34	Housing Act Advances	0	1	0	33
406	Miscellaneous Loans	50	47	0	409
682	TOTAL	50	135	0	597

23. DEFERRED PREMIUMS

31 March 2006	Category	31 March 2007
£ ' 000		£ ' 000
949	Premiums paid on premature redemption of PWLB loans	857
280	- HRA share	689
	- General fund share	
1,229	TOTAL	1,546

As a result of various debt restructures between 1998/99 and 2003/04 plus a further one in 2006/07, the above relates to premiums paid on premature redemption of loans. In the 2006/07 debt restructure, two £0.5m PWLB loans with maturity dates of 17/04/2013 and 26/04/2014 and one £1.0m loan with a maturity date of 26/04/2013, all at a rate of 10.25%, were prematurely repaid on 24/01/2007. Although this incurred a one-off premium of £540,893, the overall cash saving is £186,000 (after taking into account future inflation).

24. STOCKS IN HAND

31 March 2006.	Category	31 March 2007
£ ' 000		£ ' 000
44	Tourist information centres	37
102	Other	130
146	TOTAL	167

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

25. DEBTORS

31 March 2006	Category	31 March 2007
£ ' 000		£ ' 000
2,597	Sundry debtors	1,730
4,707	Government departments	2,000
652	Other local authorities	911
2,135	Council taxpayers	2,069
620	NNDR ratepayers	655
836	Housing rents	698
45	Employee loans	41
2,114	Other	2,131
13,706	TOTAL	10,235

Note : The decrease in Government departments is mainly due to the decrease in DWP - Housing Benefits from £2,416,000 to £840,000 and DFES - Surestart Programme from £964,000 to £0. The decrease in sundry debtors is mainly due to Ravensft Properties Ltd re rent income re Whitefriars.

26. PROVISION FOR BAD DEBTS

31 March 2006	Category	31 March 2007
£ ' 000		£ ' 000
1,067	Council taxpayers	1,115
343	NNDR ratepayers	300
796	Housing	678
1,379	Other	1,460
3,585	TOTAL	3,553

27. CREDITORS

31 March 2006	Category	31 March 2007
£ ' 000		£ ' 000
	Sundry creditors	
3,728	- Revenue Items	3,751
2,420	- Capital Items	3,398
1,681	Government departments	1,807
	Other local authorities	
909	- Revenue Items	1,931
22	- Capital Items	9
1,166	Council taxpayers	1,148
785	NNDR ratepayers	1,154
180	Housing rents	183
828	Other	426
11,719	TOTAL	13,807

The increase in other local authority revenue items is mainly due to the increase in the Kent improvement club grant which is managed from Canterbury on behalf of other Kent authorities.

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

28. INVESTMENTS

Value at 31 March 2006	Rate	Name	Maturity	Cost	Value at 31 March 2007
£ ' 000	%	<u>Internally Managed</u>		£ ' 000	£ ' 000
		Banks			
1,000	4.4900	DePfa Bank plc	20/04/2006	0	0
0	5.5000	Butterfield Private Bank	18/12/2007	4,000	4,000
0	5.5000	Close Brothers Limited	19/12/2007	2,000	2,000
0	5.7600	Clydesdale Bank	25/03/2008	1,000	1,000
0	5.4400	Glitnir Bank	12/12/2007	1,000	1,000
0	5.5100	Heritable Bank	18/12/2007	4,000	4,000
		Building Societies			
0	5.1400	Chelsea Building Society	05/09/2007	1,000	1,000
0	5.7800	Coventry Building Society	15/01/2008	1,000	1,000
0	5.3100	Coventry Building Society	15/03/2008	1,000	1,000
0	4.9000	Cumberland Building Society	13/06/2007	1,000	1,000
0	4.8900	Cumberland Building Society	04/05/2007	1,000	1,000
0	5.1600	Derbyshire Building Society	06/08/2007	1,000	1,000
1,000	4.5100	EBS Building Society	20/04/2006	0	0
0	5.1700	EBS Building Society	24/08/2007	2,000	2,000
0	5.5000	EBS Building Society	18/12/2007	1,000	1,000
0	5.5600	Kent Reliance Building Society	07/01/2008	1,000	1,000
1,000	4.6800	Nottingham Building Society	15/12/2006	0	0
0	4.9600	Nottingham Building Society	11/05/2007	1,000	1,000
0	5.7100	Nottingham Building Society	20/03/2008	1,000	1,000
0	5.7850	Nottingham Building Society	28/03/2008	1,000	1,000
1,000	4.5100	Stroud & Swindon Building Society	26/04/2006	0	0
0	4.9300	Stroud & Swindon Building Society	15/06/2007	1,000	1,000
1,000	4.5100	West Bromwich Building Society	26/04/2006	0	0
		Debenture Stock			
50	7.5625	A.D.C.(Properties) Ltd.	28/07/2011	50	50
		Money Market Fund			
5,011		Global treasury funds plc.		6,233	6,233
		<u>Externally Managed</u>			
7,966		Invesco Asset Management Ltd.		7,966	8,309
7,839		Investec Guinness Flight Investment Management Ltd.		0	0
25,866	TOTAL			40,249	40,592

One of the main reasons for the increase in investments is the capital receipt from the Kingsmead site. The investment with Investec Guinness Flight Investment Management Ltd was brought back in-house in July 2006 to improve returns.

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

29. LONG-TERM BORROWING

31 March 2006	Source of loan	Range of interest rates payable (%)	31 March 2007
£ ' 000			£ ' 000
17,750	Public Works Loan Board	3.80 - 10.50	20,750
12	Other bonds & mortgages	5.625 - 5.750	11
17,762	TOTAL		20,761
£ ' 000	An analysis of loans by maturity is:		£ ' 000
3,000	Maturing in 1-2 years		0
0	Maturing in 2-5 years		0
2,250	Maturing in 5-10 years		250
12,512	Maturing in over 10 years		20,511
17,762	TOTAL		20,761

30. GOVERNMENT (& OTHER) CAPITAL GRANTS - DEFERRED ACCOUNT

This account was created as a result of the capital accounting requirements. When government or other capital grants are applied to finance the acquisition or enhancement of fixed assets, they have to first be credited to this account, and then only credited to revenue over the life of the asset.

2005/06 As restated	Movements in the year	Gov't Grants	External cap.conts.	2006/07
£ ' 000				£ ' 000
7,180	Balance at 1 April	10,051	623	10,674
2,119	Grants received-			
	DEFRA grant - recycling & coast protection	3,946	0	3,946
1,954	Other capital grants (applied to fixed assets)			
	-where the asset is being depreciated	36	140	176
10	-where the asset is not being depreciated	10	267	277
11,263		14,043	1,030	15,073
	Less : Amount written-out to revenue			
579	-where the asset is being depreciated	562	61	623
10	-where the asset is not being depreciated	10	267	277
10,674	Balance at 31 March	13,471	702	14,173

31. DEFERRED CAPITAL RECEIPTS

Deferred capital receipts are amounts principally derived from sales of assets which will be received in instalments over agreed periods of time. They arise principally from mortgages on sales of council houses, which form the main part of mortgages under long-term debtors.

Balance 1 April		Additional Financing	Reduced Financing	Balance 31 March
£ ' 000		£ ' 000	£ ' 000	£ ' 000
242	Mortgages	0	87	155

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

32. ANALYSIS OF NET ASSETS EMPLOYED

An analysis of the 'Total Equity' ,as shown in the Consolidated Balance Sheet, by fund is as follows:-

31 March 2006			31 March 2007		31 March 2007 Total
FUND			FUND		
General Fund As restated	Housing		General Fund	Housing	
£ ' 000	£ ' 000	BALANCE SHEET ITEM	£ ' 000	£ ' 000	£ ' 000
124,980	239,211	Fixed asset restatement account	138,491	247,433	385,924
7,571	70,994	Capital financing account	9,518	72,814	82,332
2,029	1,044	Usable capital receipts reserve	11,052	1,107	12,159
-55,870	0	Pensions reserve	-49,550	0	-49,550
0	188	Major repairs reserve	0	188	188
6,918	695	Earmarked reserves	9,084	1,027	10,111
2,352	4,729	Revenue Balances	2,364	5,689	8,053
87,980	316,861	TOTAL	120,959	328,258	449,217

33. OPERATING LEASES

The authority acquires some equipment (for car parks, sports & phone system) through operating leases. The amount paid under these arrangements in 2006/07 was £146,000 (2005/06 - £149,000). The future cash payments required under these leases are:

Details of period	Commitment in	
	2007/08	2008/09 onwards
Those operating leases in which the commitment expires within that year	£ ' 000 0	£' 000 0
expires in the second to fifth years from the balance sheet date	103	137
expires over five years from the balance sheet date	26	127
TOTAL	129	264

34. ASSETS HELD UNDER FINANCE LEASES

The original total capital value of finance lease agreements at 31 March 2007 is approximately £ 193,000 of which the outstanding obligations amount to only £ 1,000. Finance lease payments for the year amounted to £ 200 (2005/06 - £ 200).

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

34a. AUTHORISATION FOR ISSUE OF THE STATEMENT OF ACCOUNTS

The statement of accounts was authorised for issue on 29 June 2007 by the Director of Corporate Services. The council has considered events following the balance sheet date and considers that no disclosure is required.

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

35. SUMMARY INTRODUCTION TO THE DETAIL OF MOVEMENTS ON RESERVES

The council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans.

Reserve	Balance 1 April 2006 £ ' 000	Net Movement in Year £ ' 000	Balance 31 March 2007 £ ' 000	Purpose of Reserve	Further Detail of Movements
Fixed Asset Restatement Account	364,191	21,733	385,924	Store of gains on revaluation of fixed assets	(35a) below.
Capital Financing Account	78,565	3,767	82,332	Store of capital resources set aside to meet past expenditure	(35b) below.
Usable Capital Receipts	3,074	9,085	12,159	Proceeds of fixed asset sales available to meet future capital investment.	(35c) below.
Pensions Reserve	-55,870	6,320	-49,550	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 15 to the Core Financial Statements, p.20.
Major Repairs Reserve	188	0	188	Resources available to meet capital investment in council housing.	HRA Statements, page 38.
Earmarked Reserves	7,613	2,498	10,111	Reserves earmarked for specific purposes.	(35d) below.
Revenue Balances - General Fund	2,035	153	2,188	Resources available to meet future running costs for non-housing services.	Statement of Movement on the General Fund Balance, page 12.
Housing Revenue Account	4,729	960	5,689	Resources available to meet future running costs for council houses.	HRA Statements, page 36.
Collection Fund	317	-141	176	Resources available to meet future precept payments.	Collection Fund Statements, page 40.
Total	404,842	44,375	449,217		

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

MOVEMENTS ON RESERVES (continued)

35a. FIXED ASSET RESTATEMENT ACCOUNT

This account was created as a result of the capital accounting requirements. The balance represents the difference between the valuation of assets under the previous system of capital accounting and their subsequent revaluation. The account is written down by the net book value of assets as they are disposed of and debited with the deficits or surpluses arising on revaluations.

2005/06 Total As restated	FIXED ASSET RESTATEMENT ACCOUNT 1a. Movements in unrealised value of fixed assets	General Fund	Housing	2006/07 Total
£' 000		£' 000	£' 000	£' 000
-61,756	Gains/losses on revaluation of fixed assets in year	17,544	7,090	24,634
6,130	Depreciation written out on revaluations of fixed assets	1,119	3,324	4,443
0	Less: Impairment losses on fixed assets	0	0	0
-55,626	Total increase / (decrease) in unrealised value of fixed assets in the year	18,663	10,414	29,077
	1b. Value of assets sold or disposed of			
-4,582	Amounts written off fixed assets balances for disposals in current year.	-6,004	-2,192	-8,196
771	Less depreciation written out on disposals in current yr	852	0	852
-59,437	Total movement on reserve in year.	13,511	8,222	21,733
423,628	Balance at 1 April	124,980	239,211	364,191
364,191	Balance at 31 March	138,491	247,433	385,924

35b. CAPITAL FINANCING ACCOUNT

The capital financing account includes amounts set aside from revenue resources or capital receipts for the acquisition of fixed assets and amounts in respect of other capital financing transactions.

2005/06 Total As restated	Movements in amounts set aside to finance capital investment	General Fund	Housing	2006/07 Total
£' 000		£' 000	£' 000	£' 000
1,054	Capital receipts set aside (& applied) in year			
	- useable capital receipts applied	3,293	0	3,293
1,054	Total capital receipts set aside (& applied) in year	3,293	0	3,293
	Revenue resources set aside in year			
3,670	- capital expenditure financed from major repairs resv.	0	3,671	3,671
953	- capital expenditure financed from revenue	437	1,390	1,827
589	- gov't grants-deferred written-out to revenue	897	3	900
-5,177	- less: minimum revenue provision (less depreciation provision)	-1,795	-3,244	-5,039
0	- less: premium on loans repaid	0	0	0
-1,127	- less: write down of deferred charges	-837	0	-837
-61	- less: repayments of housing act advances, housing associations and miscellaneous loans	-48	0	-48
-1,153	Total revenue resources set aside in year	-1,346	1,820	474
-99	Total resources set aside to finance capital investment	1,947	1,820	3,767
78,664	Balance at 1 April	7,571	70,994	78,565
78,565	Balance at 31 March	9,518	72,814	82,332

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

MOVEMENTS ON RESERVES (continued)

35c. USABLE CAPITAL RECEIPTS RESERVE

These are capital receipts which may be used to finance future capital expenditure.

2005/06 Total	Movements in realised capital resources	General Housing		2006/07 Total
		Fund		
£' 000		£' 000	£' 000	£' 000
4,531	Capital receipts received in the year (gross)	11,779	2,191	13,970
-1,676	Less: Contribution to housing pooled capital receipts	0	-1,592	-1,592
-1,054	Less: Receipts used to finance new capital investment	-2,756	-537	-3,293
1,801	Total increase / (decrease) in realised capital resources in the year	9,023	62	9,085
1,273	Balance at 1 April	2,029	1,045	3,074
3,074	Balance at 31 March	11,052	1,107	12,159

Note : Only 25% of receipts from council house sales and 50% of other housing capital receipts are usable. The remainder have to be paid into a government pool. General fund capital receipts are 100% usable.

35d. EARMARKED RESERVES

Balance at 1 April	Name of Reserve	Note	Interest Receipts	Transfer from revenue	Receipts in year	Transfers between reserves	Transfer to revenue	Payments in year	Balance at 31 March
£' 000			£' 000	£' 000	£' 000	£' 000	£' 000	£' 000	£' 000
0	Capital reserve	(a)							0
533	LABGI Reserve	(b)		1407			533		1,407
160	LAMP Project Reserve	(c)					10		150
166	Early retirement	(d)		67		177	103		307
220	Superann.backfunding	(e)				-177	43		0
459	Computer/equipment	(f)	10	113				112	470
403	Insurance reserve	(g)	18				24		397
298	Liability insurance	(h)	9					3	304
267	NDR reserve	(l)					60		207
278	Open spaces maintenance	(j)					16		262
502	Benefits grant income	(k)					22		480
588	Benefits overpayments	(l)		200			150		638
359	External interest	(m)	17	100					476
131	Local plan inquiry	(n)	6				10		127
234	Tenterden drive	(o)						234	0
200	Subsidence Reserve	(p)		200					400
0	CPO Lodgements resv	(q)	19		442				461
290	St.Aug.Hosp.Site Vill.Hall	(r)	10					165	135
48	Commuted sums	(s)					3		45
894	Section 106 receipts	(t)	22	0	362	0	38	48	1,192
1,583	Other reserves		113	1,019	317	0	165	214	2,653
7,613	TOTAL RESERVES		224	3,106	1,121	0	1,177	776	10,111

Notes:

- (a) The Capital reserve is used to finance new capital expenditure without recourse to external borrowing. It is generally now only used to cover slippage from the previous year.
- (b) The Local Authority Business Growth Incentive (LABGI) reserve holds the LABGI grant received in February 2007 to be used in the 2007/08 budget. This is assessed on the amount of growth in the rateable value of businesses in the area above a standard increase.

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

35d. EARMARKED RESERVES (continued)

- (c) The LAMP project reserve holds the amount of additional income raised from land charges to pay for the new computerised land charges system (before paying over to the contractors)
- (d) The Early retirement reserve was set up in 1999/2000 by transferring £470,000 from the Housing Act Advances reserve to finance the additional payments required by the Kent superannuation fund as a result of early retirements following the council's restructure.
- (e) The Superannuation backfunding reserve was set-up in 1999/2000 to hold the difference between the backfunding contributions collected and that required by the Kent superannuation fund. The balance has now been transferred to the early retirement reserve (above).
- (f) The Computer/equipment reserve was created in 1995/96 to finance computers and equipment which need replacing.
- (g) The Insurance reserve is used to meet claims on the council for which external insurances have not been effected.
This reserve covers three broad areas of insurable risks:
 - (i) Professional indemnity; (covers losses resulting from professional negligence)
 - (ii) All risks cover for equipment under £5,000 in value
 - (iii) Sold council houses - latent defects (i.e. defects discovered at a later date which could not reasonably have been identified at the time of sale).The current balance on the reserve held for each risk is roughly in the proportions 70%, 10%, 20%, so e.g. approximately £ 280,000 is held to cover professional indemnity (which could involve major sums).
- (h) The Liability insurance reserve covers public liability claims under £5,000. (Claims over £5,000 being covered by external insurance). Claims tend to take many years before settlement is agreed, therefore the balance has to cover prior year outstanding claims and future liabilities.
- (i) The NDR reserve was created to cover back-dated assessments of NDR on council properties on which NDR is payable, but have not yet been assessed by the valuation office. Now that the liability on some properties has passed the statutory period, some of this reserve will be transferred back to revenue.
- (j) The Open spaces maintenance reserve holds the balance from commuted payments from developers (under section 106 agreements) based on 20 years maintenance costs of spaces taken over by the the council. The balance for each development is transferred to revenue over 20 years.
- (k) The Benefits grant income reserve holds additional housing benefit subsidy income arising from the final claim being greater than assumed in the accounts. The balance is being transferred back to revenue.
- (l) The Benefits overpayment reserve was created in 2004/05 to hold the excess of overpayments which have been identified by the benefits computer system compared with the balance in the accounts. The balance is being credited back to revenue over a number of years, starting from 2006/07.
- (m) The External interest reserve was created in 1997/98 from the existing premature debt repayment reserve and was augmented by the investment interest earned above the original forecast in 1998/99 2000/01 and 2002/03 which was due to good fund management performance.
It can be used both to cover any premium payable on the premature repayment of debt, to cover any poor performance by Fund Managers and to reduce future interest payments on fixed interest loans.
- (n) The local plan enquiry reserve evens out the impact of costs which arise on a periodic basis for the local plan enquiry.
- (o) The Tenterden drive reserve is an insurance receipt in 2003/04 following a gas explosion, to pay for replacement housing in 2006/07.
- (p) The subsidence reserve was created in 2005/06 to cover liabilities arising from subsidence of housing stock properties now that they are not covered within the council's insurance policy.
- (q) The CPO lodgements reserve was created in 2006/07 to hold amounts recovered from the land registry plus interest, 12 years after the original deposit was made.
- (r) The St. Augustine's Hospital site village hall reserve is a receipt from the developer in 1998/99 which was subject to repayment if the village hall was not built within 5 years. A further sum of £236,000 was received in 2003/04, and payments have been made in 2004/05 and 2006/07.
- (s) Various commuted sums were received in 2002/03 from developers, the principal one being £88,000 re play area development which was used in 2004/05.
- (t) This holds the balance of section 106 planning receipts which have been received from developers. until they are applied to the purpose for which they were received.

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

NOTES TO CASH FLOW STATEMENT

36. RECONCILIATION OF REVENUE SURPLUS TO REVENUE ACTIVITIES NET CASHFLOW

2005/06		2006/07	
£' 000		£' 000	£' 000
	Surplus (-) / Deficit for the year		
117	General Fund Income and Expenditure Account		-8,199
202	Collection Fund		141
319			-8,058
	Non-Cash Transactions		
-57	Less : Amortisation of intangible fixed assets.	-76	
-2,583	Less : Depreciation and impairment of fixed assets	-2,445	
-3,177	Less : Depreciation and impairment of HRA assets	-3,244	
589	Add : Government grants deferred and other capital contributions w/out to revenue	900	
-1,127	Less : Deferred charges written down to be financed from capital resources	-837	
659	Net gain / loss(-) on sale of fixed assets	6,578	
-4,470	Net charges made for retirement benefits in accordance with FRS17.	-4,710	
3,450	Employer's contributions payable to the Kent Pension Fund & retirement benefits payable direct to pensioners.	3,790	
-6,716			-44
	Items classified in another part of cash flow statement		
-1,301	Add: Interest paid	-1,355	
1,280	Less: Interest received	1,420	
-21			65
-6,418			-8,037
	Items on an accruals basis		
7	Add/less : Increase/decrease in stocks	21	
1,980	Add/less : Increase/decrease in debtors (net of bad debt provision)	-3,439	
10	Add/less : Increase/decrease in payments in advance	34	
-238	Add/less : Increase/decrease in deferred premiums	326	
71	Add/less : Decrease/increase in creditors	-2,088	
-743	Add/less : Decrease/increase in deposits	579	
-1,508	Add/less : Accrual of capital grants & capital income	1,015	
-421			-3,552
-6,839	Revenue Activities Net Cash Flow		-11,589

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

NOTES TO CASH FLOW STATEMENT (continued)

37. RECONCILIATION OF CASH FLOWS TO NET DEBT & SHORT-TERM INVESTMENT LEVELS

2005/06		Balance 1.4.06	Balance 31.3.07	Borrowing category transfers	Movement in the year
£' 000		£' 000	£' 000	£' 000	£' 000
5,841	Short-term investments	25,866	40,592	0	14,726
-2,999	Long-term borrowing	-17,762	-20,761	3,000	-5,999
-10	Short-term borrowing	-7,156	-3,007	-3,000	7,149

For details of short-term investments see note 28.

For details of long-term borrowing see note 29.

38. INCREASE / DECREASE IN CASH

Cash is defined as cash in hand and deposits repayable on demand, less overdrafts.

2005/06		Balance 1.4.06	Balance 31.3.07	Movement in the year
£' 000		£' 000	£' 000	£' 000
-1,049	Bank overdraft	-1,785	-1,327	458
-46	Cash in hand	407	419	12
-1,095				470

39. ANALYSIS OF OTHER GOVERNMENT GRANTS (REVENUE ACTIVITIES)

2005/06		2006/07
£' 000		£' 000
1,022	Housing / council tax benefit administration	1,467
375	Public safety, recycling & other grants	762
973	Sure Start grant	726
533	Local authority business growth incentive grant (LABGI)	1,407
196	NNDR collection costs	202
422	Planning delivery grant	293
3,521		4,857

The LABGI grant above is a new grant from 2005/06, which is only received if the % increase in rateable value of business rate property in the district in the year, exceeds a target value.

40. ANALYSIS OF CAPITAL GRANTS

2005/06		2006/07
£' 000		£' 000
339	Specified grant (re Housing improvement grants)	339
150	Implementing electronic government grant (IEG)	0
1,839	DEFRA grants - Coast protection, recycling & harbour	4,824
424	Sure Start grant	997
520	Others	657
3,272		6,817

HOUSING REVENUE ACCOUNT INCOME & EXPENDITURE ACCOUNT

2005/06 As restated		2006/07
£' 000	INCOME	£' 000
16,665	Dwelling rents (gross) (Note 8)	17,197
448	Non-dwelling rents (gross)	436
105	Leaseholder's charges for services and facilities	105
1,077	Other charges for services and facilities	1,209
18,295	TOTAL INCOME	18,947
	EXPENDITURE	
3,632	Repairs and maintenance	3,694
3,281	Supervision and management	3,227
1,466	-General management	1,485
288	-Special services	297
288	Rents, council tax and insurance	297
2,880	Negative housing revenue account subsidy payable (Note 9)	3,533
3,177	Depreciation charges (Note 6)	3,244
50	Debt Management Expenses	52
44	Increase in provision for bad or doubtful debts	56
14,818	TOTAL EXPENDITURE	15,588
-3,477	NET COST OF HRA SERVICES per Income and Expenditure Account	-3,359
109	HRA services share of Corporate and Democratic Core	113
-3,368	NET COST OF HRA SERVICES	-3,246
219	Interest payable	241
213	Premium on repurchase of borrowing	189
	Interest and investment income -	
-18	Mortgages	-14
-202	Notional cash balances	-266
335	Pensions interest cost and expected return on pension assets (N11)	226
-2,821	SURPLUS(-) / DEFICIT FOR THE YEAR ON HRA SERVICES	-2,870

The HRA Income and Expenditure Account shows the council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last year. However the council is required to account for HRA balance on a different basis, the main differences being:

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

STATEMENT OF MOVEMENT ON THE HRA BALANCE for the YEAR ENDED 31 MARCH 2007

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

2005/06 Net Expenditure		2006/07 Net Expenditure
£' 000 -2,821	Surplus (-) / Deficit for the year on the HRA Income and Expenditure Account	£' 000 -2,870
1,268	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year. (see table below)	1,910
-1,553	Increase (-) / Decrease in HRA Balance for the year	-960
-3,176	HOUSING REVENUE ACCOUNT BALANCE B/F AT 1 APRIL	-4,729
-4,729	HOUSING REVENUE ACCOUNT BALANCE C/F AT 31 MARCH	-5,689

NOTE TO THE STATEMENT OF MOVEMENT ON THE HRA BALANCE

2005/06 Net Expenditure		2006/07 Net Expenditure
	Items included in the HRA Income and Expenditure Account, but <u>excluded</u> from the movement on the HRA Balance for the year.	
£' 000 3	Government grants deferred w/out to revenue	£' 000 3
-610	Net charges made for retirement benefits in accordance with FRS17 (Note 11)	-611
-607		-608
	Items <u>not</u> included in the HRA Income and Expenditure Account, but <u>included</u> in the movement on the HRA Balance for the year.	
493	Transfer to/from (-) major repairs reserve (Note 3)	427
350	Contribution to HRA I.T./Subsidence Reserve	250
419	Employer's contributions payable to Kent Pension Fund and retirement benefits payable direct to pensioners.	451
613	Capital expenditure funded by the HRA (Note 4)	1,390
1,875		2,518
1,268	Net additional amount required by statute to be debited or (credited) to the HRA balance for the year.	1,910

NOTES TO THE HOUSING REVENUE ACCOUNT

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

1. HOUSING STOCK

i) At 31 March 2007, the council was responsible for managing 5,319 units of accommodation:

Type of Property	Number of Bedrooms				Total
	One	Two	Three	Four +	
Flats-Low Rise	1,151	320	5	1	1,477
Flats-Medium Rise	292	350	65	4	711
Flats-High Rise	64	69	0	0	133
Houses and bungalows	354	959	1,551	87	2,951
Hostel places	47	0	0	0	47
Totals	1,908	1,698	1,621	92	5,319

Plus 8 Basic Homes (shared ownership dwellings)

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

	Stock movements				Stock at 31/03/07
	Stock at 01/04/06	Sales	Transfers	Additions	
Flats	2,338	-9	-12	4	2,321
Houses and bungalows	2,968	-14	-3	0	2,951
Hostels	47	0	0	0	47
Totals	5,353	-23	-15	4	5,319

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

2006 As restated	Gross Balance Sheet Value	2007
£' 000		£' 000
309,518	Operational assets	
3,517	- dwellings	321,202
100	- garages	1,797
	- community centre	195
631	Non-operational assets	
1,017	- land	978
	- shops	1,127
314,783	TOTAL	325,299

2. VACANT POSSESSION VALUE

The vacant possession value of dwellings within the HRA as at 1 April was £713,635,000. For the balance sheet, the figure has been reduced to 45% i.e. £321,202,000 to show existing use value as social housing, reflecting the economic cost of providing social housing.

3. MAJOR REPAIRS RESERVE

With effect from 1 April 2002, the Government required that the Housing accounts are produced on a Resource Accounting basis. This requires that a charge is made for depreciation which is transferred to a separate Major Repairs Reserve, to finance HRA capital projects. This also used to require that a 3.5% notional interest charge for the use of fixed assets was charged to the HRA, however this requirement has now ceased.

NOTES TO THE HOUSING REVENUE ACCOUNT (con)

3. MAJOR REPAIRS RESERVE (continued)

The housing subsidy for 2006/07 includes a grant in the form of a Major Repairs Allowance (MRA) to resource the Major Repairs Reserve. The MRA is ring fenced for capital expenditure of a housing nature. If any allowance is unspent in one year, it can be carried forward to finance capital expenditure in future years within the Major Repairs Reserve. The balance available for allocation in future years at 31 March 2007 is £188,000.

2005/06	Major Repairs Reserve	2006/07
£' 000		£' 000
188	Balance at 1 April	188
3,177	Transfer from capital financing reserve (HRA depreciation)	3,244
	Transfer to(-)/from HRA	
	re depreciation on non-dwellings	-32
493	re excess(-)/shortfall of dwellings depreciation over MRA	459
-3,670	Less: expenditure on dwellings financed from this reserve	-3,671
188	Balance at 31 March	188

4. SUMMARY OF CAPITAL FINANCING

Capital expenditure of £5,619,000 was spent on housing assets (all on dwellings) within the HRA during 2006/07. This was financed as follows:

2005/06	Capital financing of HRA expenditure	2006/07
£' 000		£' 000
3,670	Major Repairs Reserve	3,671
613	Revenue	1,390
1,190	Borrowing	324
0	Capital receipts	0
0	Capital Grant	234
5,473	Total	5,619

5. SUMMARY OF CAPITAL RECEIPTS

Housing capital receipts during 2006/07 were as follows:

2005/06	Housing capital receipts	2006/07
£' 000		£' 000
1,896	Dwelling sales (net of administration deduction)	2,034
73	Land sales	47
181	Mortgage repayments and discounts repaid	110
2,150	Total	2,191

6. DEPRECIATION OF FIXED ASSETS

Depreciation of £3,244,000 was charged to the HRA. This comprises £3,212,000 for dwellings and £32,000 for non dwelling housing assets.

7. IMPAIRMENT OF FIXED ASSETS

The council's Valuation Officer, a member of FRICS, has advised that there were no impairments during the year.

NOTES TO THE HOUSING REVENUE ACCOUNT (con)

8. DWELLING RENTS (GROSS)

This is the total rent income for dwellings for the year after allowance is made for voids etc. Average rents were £ 65.08 per week in 2006/07 (£ 62.57 in 2005/06). Rents were increased on 1st April 2006 by an average of £ 2.51 per week.

9. HOUSING SUBSIDY

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

2005/06	Housing subsidy	2006/07
£' 000		£' 000
7,506	Management and Maintenance Allowance	7,943
3,670	Major Repairs Allowance	3,671
1,007	Charges for Capital	994
0	Rent rebates	0
12,183		12,608
-15,036	Notional Rent	-16,125
-27	Interest on Receipts	-16
2,880	Total	3,533

10. RENT ARREARS

The figures are as follows:

2005/06		2006/07
£' 000		£' 000
836	Gross Rent Arrears at 31 March	698
-179	Prepayments of Rent	-183
657	Net Rent Arrears at 31 March	515
777	Provision for bad debts at 31 March	659
%		%
5.0	Gross rent arrears as a proportion of gross dwelling rent income	4.1

11. HRA SHARE OF PENSIONS

FRS17 has introduced a requirement to analyse the movement in the HRA share of the city council's element of the Kent pension fund (see also note 15 to the core financial statements). However, so that there is no demand on housing rents, the entries are reversed out via the Pensions reserve.

The figures are as follows:

2005/06		2006/07
£' 000		£' 000
121	HRA share of current service cost less employer contributions	231
-265	HRA share of past service cost less employer contributions	-297
-144	Adjustment to "General management" line of HRA statement	-66
335	HRA share of pensions interest cost and expected return on	226
191	pensions assets	160
-610	Net charges made for retirement benefits in accordance with FRS17	-611
419	Employer's contributions payable to the Kent Pension Fund and retirement benefits payable direct to pensioners	451
-191	HRA share of contributions to/from Pensions Reserve	-160
0	Net effect on HRA balance	0

THE COLLECTION FUND
INCOME AND EXPENDITURE ACCOUNT

2005/06		Note	2006/07
£ ' 000			£ ' 000
	INCOME		
52,854	Council Tax (net of benefits & transitional relief)		55,903
	Transfers from General Fund		
7,619	- Council Tax benefits		7,864
37,438	Income from business ratepayers	5	40,162
	Contributions		
0	- Adjustments of previous years community charge		0
97,911			103,929
	EXPENDITURE		
	Precepts and demands:	2	
44,198	- Kent County Council		46,490
5,588	- Kent Police Authority		5,889
2,880	- Kent & Medway Fire & Rescue Authority		3,006
7,908	- Canterbury City Council (incl. Parishes)		8,291
60,574	Business rate	5	63,676
37,242	- Payment to national pool		39,960
196	- Costs of collection		202
	Bad and doubtful debts		
-132	- Write-offs		-183
231	- Provisions		415
	Contributions		
2	- From previous year's Collection Fund surplus		0
98,113			104,070
202	NET FUND SURPLUS (-) / DEFICIT FOR YEAR		141
519	COLLECTION FUND BALANCE AT 1 APRIL		317
317	COLLECTION FUND BALANCE AT 31 MARCH	2 & 3	176

NOTES TO THE COLLECTION FUND ACCOUNTS

1. GENERAL NOTE

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

2. "NEW" COLLECTION FUND ELEMENT

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

2005/06		2006/07
£ ' 000		£ ' 000
60,324	Precepts (excluding distribution of previous year's deficit)	63,676
99	Write-Off Provision	232
60,423		63,908
-60,473	Council tax (incl. benefits & subsidy scheme)	-63,767
-50	Surplus (-) / Deficit	141
250	Precepts - Distribution of previous year's surplus / deficit(-)	0
-517	Balance at 1 April	-317
-317	Balance at 31 March	-176

£250,000 of the estimated surplus at 31 March 2005 was forecast and notified to KCC, KPA and KMF & RA in December 2004. The net share was as follows: KCC £182,617; KPA £22,815; KMF&R £11,952; CCC £32,616. An estimated break-even position at 31 March 2006 was forecast and notified to KCC, KPA and KMF & RA in January 2006. Similarly a break-even position at 31 March 2007 was notified to the above in December 2006.

3. "OLD" COLLECTION FUND ELEMENT

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

2005/06		2006/07
£ ' 000		£ ' 000
0	Adjustments to previous year's community charges.	0
2	Contribution from previous year's collection fund surplus	0
2	Deficit	0
-2	Balance at 1 April	0
0	Balance at 31 March	0

A £ 2,300 contribution was deducted from 2005/06 council tax bills as the "old" collection fund was then in surplus. This contribution was close to the above balance at 31st March 2005.

NOTES TO THE COLLECTION FUND ACCOUNTS (continued)

4. COUNCIL TAX

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

2005/06 Band D Equivalent Dwellings	Band	Estimated Number of Taxable Properties after effect of discounts	Ratio	2006/07 Band D Equivalent Dwellings
3,041	A	4,511	6 / 9	3,007
8,389	B	10,819	7 / 9	8,415
14,275	C	16,134	8 / 9	14,341
10,012	D	10,107	9 / 9	10,107
7,044	E	5,892	11 / 9	7,201
4,844	F	3,399	13 / 9	4,910
2,948	G	1,792	15 / 9	2,987
140	H	73	18 / 9	146
50,693		52,727		51,114
99.0%		Multiplied by Collection Rate		99.0%
50,186		COUNCIL TAX BASE		50,603

5. INCOME FROM BUSINESS RATES

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

2005/06		2006/07
£ ' 000		£ ' 000
(107,925) X (41.5p)	Non-domestic rateable value (114,894)	
44,789	multiplied by small business rate (42.6 p)	48,945
7,547	Less: allowances and other adjustments	8,985
37,242	Net contribution due to NNDR national pool	39,960
196	Cost of Collection	202
37,438	Income from business ratepayers	40,162

There was a general revaluation of all properties effective from 1 Apr 2005 and a small business rate multiplier was introduced.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's responsibilities

The Authority is required to:

- ◆ make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Corporate Services
- ◆ manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- ◆ approve the Statement of Accounts.

The Director of Corporate Services' responsibilities:

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

In preparing this Statement of Accounts, the Director of Corporate Services has:

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

The Director of Corporate Services has also:

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

The Statement of Accounts presents fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2007.

Signed 

Director of Corporate Services

Date 27 September 2007

STATEMENT ON INTERNAL CONTROL / CORPORATE GOVERNANCE TO THE 2006/07 ACCOUNTS.

CORPORATE GOVERNANCE

The council is committed to the highest standards of corporate governance and is ensuring that it complies with relevant statutory requirements and recommendations from its auditors.

Canterbury City Council comprises 50 elected members. It is supported by a team of paid officers led by the Chief Executive as Head of Paid Service. There are separate posts of Monitoring Officer and Director of Corporate Services to ensure independence in the giving of advice to members.

The council has established an employee code of conduct based around the 7 Nolan Principles on standards in Public Life to secure integrity within its operations. In addition Council Members have their own code of conduct and there is a Standards Committee.

STATEMENT OF INTERNAL CONTROL

1. - SCOPE OF RESPONSIBILITY

Canterbury City 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. It also has a duty under the Local Government Act 1999 to secure continuous improvement in how its functions are exercised.

In discharging this overall responsibility Canterbury City Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to promote effective risk taking to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve 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 the risks to the achievement of its aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place at Canterbury City Council for the year ended 31st March 2007 and up to the date of approval of the annual report and accounts.

3. THE INTERNAL CONTROL ENVIRONMENT

This is comprised of a number of elements, which together provide layers for control at both strategic and operational levels for the management of risk. The key elements are set out in the table below together with an outline of further actions to be carried out to enhance the control environment.

DESCRIPTION OF KEY ELEMENTS	INTERNAL CONTROL	PLANNED FUTURE ENHANCEMENTS
<p>1. Establishing and monitoring the achievement of the authority's objectives</p>	<p>The council has produced a Corporate Plan covering the period April 2004 – March 2008. This is reviewed annually to ensure that it remains relevant to the council's developing policies. Obsolete actions are deleted and new ones added. Progress against the Corporate plan is reported on a regular basis to the Executive the last report being on 20 July 2006. A new Corporate plan is being developed for presentation to members following May 2007 elections prior to public consultation.</p> <p>60 Best Value Performance Indicators (BVPI's), plus 35 Key Local Performance Indicators (KLPI's) covering major areas of council spending not covered by BVPI's have been chosen for monitoring council performance. The Council has identified a number of priority BVPI's for improvement because of their impact upon the public.</p> <p>These are monitored by PMG on a quarterly or annual basis. Reports on performance against targets are made to the Scrutiny Management & Review sub- Committee of the Overview & Scrutiny Committee.</p> <p>The council has produced a Community Strategy covering 6 of the 7 themes in the draft Corporate Plan. This is an inter-agency plan projecting 10 -15 years ahead and was adopted in April 2003. There are 95 key actions in this plan.</p> <p>The Partnership Executive monitors the Community Strategy regularly. At each of their 6 bi-monthly meetings the Partnership Executive receives a monitoring report for an individual theme of the strategy.</p> <p>The council has undertaken Futures work to inform the new Sustainable Community Strategy and the emerging development framework. This document will include a suite of quality of life Performance Indicators (PI's) that will be used to monitor delivery of Services and the Local Development Framework (LDF).</p>	<p>The new Corporate Management System (PRISM) continues to be developed to monitor performance and link to the Corporate Plan, Service Plan and Risk Register.</p> <p>A newly established Performance Management Group (PMG) headed by the Director of Community and Environmental Services will monitor the implementation of PRISM.</p> <p>Account will be taken of the white paper on performance indicators when this is issue in 2007.</p>

DESCRIPTION OF KEY ELEMENTS	INTERNAL CONTROL	PLANNED FUTURE ENHANCEMENTS
<p>1. Establishing and monitoring the achievement of the authority's objectives (cont)</p>	<p>Local Strategic Partnership Executive Board Meetings are held bi-monthly throughout year.</p> <p>2006/07 Best Value Performance Plan published and available on Web Site BVPP reported annually to Executive. Annual Report to Executive monitors progress on targets.</p>	<p>Corporate Plan is now being reviewed ready for publication in 2008 – moving forward to 2012</p> <p>A consultative exercise will be carried out to ensure that the Corporate Plan for 2008-2012 reflects the new priorities of the Community Strategy.</p>
<p>2. The facilitation of policy and decision-making</p>	<p>The council has adopted a detailed Constitution as set out in the Council yearbook. This covers rules of procedure for council business, committee structure and terms of reference, delegations and protocols.</p> <p>There is an Executive Committee, which takes all policy decisions within the Policy and Budget framework.</p> <p>The council's Management Team comprising the Chief Executive and the two other strategic directors, the council's Head of Democratic and Legal Services (who is also the monitoring officer), The Head of Housing & Community Development and the Head of Policy and Improvement meets on a regular weekly basis to consider both strategic and operational issues. Management Team and those who have an input on specific implications review all committee reports.</p>	<p>The council will take into account the Local Government White Paper and Lyons Report, which should set the direction for the Neighbourhood working agenda and long term financing of local government.</p>

DESCRIPTION OF KEY ELEMENTS	INTERNAL CONTROL	PLANNED FUTURE ENHANCEMENTS
<p>2. The facilitation of policy and decision-making (cont)</p>	<p>On a monthly basis an Extended Management Team meeting takes place and is attended by Directors and all Heads of Service.</p> <p>A number of working groups have been created to facilitate consideration of key issues facing the council and these all report through Management team to the relevant council committee(s)</p> <p>In addition to the above there are many complementary council strategies, (as listed in the council year-book) which have been determined by members. These have been produced for each of the themes within the Corporate Plan and include action plans and priorities for the effective targeting of resources.</p> <p>The corporate management system (PRISM) is being used to monitor these separate strategies. It is being delivered through PMG.</p> <p>The Overview and Scrutiny Committee exercises an oversight role on the Executive. The Audit Committee oversees the management of risk and the control environment.</p>	
<p>3. Ensuring compliance with established policies, laws and regulations:-</p>	<p>The council Year book contains key controls and regulations including:</p> <ul style="list-style-type: none"> Council's Constitution Budget and Policy Framework Procedure Rules Financial Regulations, Standing Orders with respect to Contracts, Delegations to Officers, Code of Conduct for Employees, Members Code of Conduct 	<p>The Constitution and other key regulations are reviewed annually.</p> <p>The Employee Code of Conduct will be reviewed when the national code is produced.</p>

DESCRIPTION OF KEY ELEMENTS	INTERNAL CONTROL	PLANNED FUTURE ENHANCEMENTS
<p>3. Ensuring Compliance with established policies, laws and regulations: (cont)</p>	<p>Each Department produces detailed Service Plans setting out key objectives and actions. These are derived from many sources, the most significant of which are:</p> <p>Corporate Plan, Medium-term Financial Strategy Best Value Performance Plan Corporate Property Strategy Equalities Strategy Section 17 of the Crime and Disorder Act</p> <p>Financial Regulations and Contract Standing Orders have been reviewed to reflect current developments. The changes came into effect in May 2006.</p> <p>Finance training for senior managers was delivered during 2006 and is included in the induction process to raise awareness of these regulations / orders and associated guidance such as the procurement strategy and corporate governance arrangements.</p>	<p>Procurement training will be delivered in 2007/08.</p> <p>The Audit committee has requested a report on introducing a gateway process for high-risk procurements.</p> <p>The Anti Fraud and Corruption Policy and Whistleblowing will be reviewed in 2007 and Money Laundering awareness training delivered to relevant staff.</p>
<p>How risk management is embedded in the activity of the council.</p>	<p>A Risk Management / Corporate Governance working group continues to implement and develop the Risk Management policy by establishing appropriate assessment and review procedures and identifying training needs.</p> <p>An annual Corporate Governance compliance statement is signed by each Head of Service as part of the process for producing the Annual Service Plans. Risks identified during this planning process are incorporated into service action plans.</p>	<p>Risk management training will be delivered to all members following the May elections. This will be at two levels raising awareness for all members and more detailed training for Audit Committee members.</p>

DESCRIPTION OF KEY ELEMENTS	INTERNAL CONTROL	PLANNED FUTURE ENHANCEMENTS
<p>How risk management is embedded in the activity of the council. (cont)</p>	<p>The Head of Internal Audit meets with Heads of Service and Directors to identify and discuss key risk areas and how they are currently managed. The annual audit plan, which is approved by the Audit Committee each year, is derived partly from these discussions. An independent chair was appointed in 2006 to lead this committee.</p> <p>The Project Management Toolkit includes the need to identify risks associated with any project. Contract standing orders and procurement guidance include references to risk management.</p> <p>Risk management is discussed regularly at Extended Management Team</p>	
<p>How leadership is given to the risk management process.</p>	<p>The council has adopted a Risk Management Policy, aimed at best practice in the identification, evaluation and cost-effective control of risks to ensure that they are either eliminated or reduced to an acceptable level.</p> <p>The Corporate Governance / Risk Management group meets on a regular quarterly basis to progress the council's approach to Risk Management.</p> <p>The Corporate Management System (PRISM) implemented in April 2006 is being used to assist in the identification of key risks by linking these to monitoring of the performance plan.</p> <p>Reports are made quarterly to Audit Committee members on the key risks facing the council.</p> <p>Identification of new risks is now an integral part of departmental management processes by including this as a standing item at departmental team meetings.</p>	

DESCRIPTION OF KEY ELEMENTS	INTERNAL CONTROL	PLANNED FUTURE ENHANCEMENTS
<p>How leadership is given to the risk management process (cont)</p>	<p>This includes production of a risk register, which is updated each quarter and reported to members.</p> <p>During the budget process, there is provision for growth bids to be included to manage key risks where additional resources are required.</p> <p>The new Corporate Management System (PRISM) is being used to identify key risks by linking these to monitoring of the performance plan and generating the risk register.</p>	<p>During 2007/08 the CGRM group will consider how the management and monitoring of key risks can be linked more closely to funding for reducing such risks.</p>
<p>How staff are trained or equipped to manage risk in a way, which is appropriate to the authority & their duties.</p>	<p>The work of the Corporate Governance / Risk Management (CGRM) group has involved raising awareness among group members and staff. Training was delivered to senior officers during 2005/06 through both the staff away day and as one element of the Management Development Programme.</p> <p>The Project Management Toolkit specifically includes risk management issues.</p> <p>The Partnerships Checklist is also part of the project management toolkit and covers consideration of the risks associated with partnerships.</p>	<p>During 2007/08 the CGRM group will review and identify future training at an operational level.</p>

DESCRIPTION OF KEY ELEMENTS	INTERNAL CONTROL	PLANNED FUTURE ENHANCEMENTS
<p>4. Ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which functions are exercised, having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty.</p>	<p>The Budget Monitoring Process and the Annual Service Planning process ensure that officer attention is directed to the efficient and effective use of resources.</p> <p>The council has adopted an Improvement Plan. This is reviewed every 6 months by Management Team and submitted to the Executive each year for approval and to Overview and Scrutiny for monitoring.</p> <p>The council is required by the Office of the Deputy Prime Minister (ODPM) to produce an Annual Efficiency Statement that sets out where it intends to deliver efficiency savings of 2.5% per annum over the years 2004/05 to 2006/07. This was completed for 2006/07, returns sent and savings targets achieved.</p> <p>Efficiency training was delivered in March 2007 to encourage and help managers to identify cashable and non-cashable efficiency savings.</p>	<p>The Annual Service Plan process will be expanded in 2007/08 to increase the number of service unit costs as a means of identifying scope for efficiency savings.</p> <p>Unit costs for key elements of the service are recorded to identify opportunities for efficiency savings and improvements.</p>
<p>5. The financial management of the authority and the reporting of financial management.</p>	<p>There is a comprehensive budgeting and budget monitoring system, annual budgets, quarterly and monthly budget monitoring reports monitor the delivery of the 4 - year medium-term financial strategy. Quarterly results are reported against budget, revised forecasts are produced regularly.</p> <p>The Corporate Investment Funding Team CIFT oversees the management of assets to fund revenue and capital projects. It identifies investment opportunities and funding sources in line with strategic corporate priorities and establishes project management systems for capital projects. CIFT oversees the development and monitoring of four key strategies: Corporate Property Strategy, Housing HRA Business Plan, ICT Strategy and Capital Strategy.</p>	

DESCRIPTION OF KEY ELEMENTS	INTERNAL CONTROL	PLANNED FUTURE ENHANCEMENTS
<p>5. The financial management of the authority and the reporting of financial management (cont).</p>	<p>It also monitors bidding for external funding.</p> <p>The council has adopted an Anti Fraud and Corruption Policy and Whistleblowing Policy to enable staff and others to make public interest disclosures with confidence. This policy was updated in January 2006 and is available on the intranet. Ongoing training is given each year covering new staff and those who have not attended before.</p>	<p>CIFT will oversee the development and monitoring of the External Funding Strategy when adopted.</p>
<p>6. The performance management of the authority and the reporting of performance management.</p>	<p>The council has developed a corporate planning process, which integrates with service and financial planning. The council has set out its key objectives in its Corporate Plan.</p> <p>The Corporate Management System (PRISM) implemented in April 2006 has integrated performance management and risk management.</p>	<p>Service Planning will be integrated in the PRISM system during 2007 for 2008/09 Service Plans</p>

4. REVIEW OF EFFECTIVENESS

Canterbury City Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control, including the effectiveness of Internal Audit. This review is informed by the work of internal auditors and the executive managers, within the authority who have responsibility for the development and maintenance of the control environment, and also by comments made by external auditors and other review agencies and inspectorates.

This review included the following elements during the year 2006/07

SOURCE	REVIEW ACTIVITY	FUTURE ENHANCEMENTS
Internal Audit Assurance	<p>The Audit committee approved the 2006/07 audit plan setting out the programme of work for reviewing and monitoring the activities of the council, in particular its internal financial controls. Quarterly updates of progress against this plan were reported to this committee and a summary annual report in June 2007, including a review of the effectiveness of Internal Audit.</p> <p>Internal Audit has adopted an Audit Charter, which was amended in June 2006 to take account of the new Audit committee arrangements.</p> <p>The annual report for 2006/07 gave assurance that in general systems are sound and that the main risks facing the council relate to budget pressures and corporate capacity.</p>	<p>The Audit Committee will consider what further reports or attendance by Heads of Service will be required in future to increase the evidence it receives on governance and risk management issues</p>
Independent Corporate Governance Health Check	<p>An independent auditor from the East Kent Audit Partnership undertook an annual Corporate Governance Health check in April 2007 using the CIPFA/SOLACE matrix. This report includes a number of minor recommendations for improvements in corporate governance arrangements</p>	<p>A revised version of the CIPFA / SOLACE matrix expected in 2007 was not available for this review but will be used for future reviews.</p>

SOURCE	REVIEW ACTIVITY	FUTURE ENHANCEMENTS
<p>Audit Commission work –</p> <p>The draft annual Audit & Inspection Letter dated March 2007 includes the following statement on Internal Control:</p>	<p>“The council’s arrangements in respect of internal control have improved since our last assessment. In particular the arrangements around the monitoring of the register of gifts and hospitality. To score more highly, the council needs to be able to demonstrate that risk management is fully embedded in its corporate business processes, including strategic planning, financial planning, policy making and review & performance management. Risk Management awareness training will also need to be rolled out to all members.</p>	<p>Increasing knowledge of risk management and awareness is included in future enhancements in the table at 3 above item 3 section - How risk management is embedded in the activity of the council and the sections following</p>
<p>Best Value / Scrutiny Reviews</p>	<p>During the year 2006/07, Scrutiny reviews were completed in respect of:</p> <ul style="list-style-type: none"> • Highways Operations • Canterbury City Centre Development • Westgate Towers & Surrounding Area • Rural Sustainability <p>The action plans from scrutiny reviews are monitored on a six-monthly basis by the Scrutiny Management & Review sub – committee.</p>	<p>For 2007/08 Best Value / Scrutiny reviews will be determined after the May 2007 elections.</p>

SOURCE	REVIEW ACTIVITY	FUTURE ENHANCEMENTS
<p>Audit Commission Use of Resources Judgement – Draft Annual Audit & Inspection Letter March 2007</p>	<p>The council received a judgement in May 2007 and achieved a score of 3 across all categories – consistently above minimum requirements, performing well.</p>	<p>The relevant actions from the Audit & Inspection Letter will be incorporated into the council's improvement plan.</p>
<p>Review by Corporate Governance / Risk Management working group (CGRM)</p>	<p>The quarterly meetings of this group consider the key risks and internal control issues facing the council.</p> <p>There is a standing item on the CGRM group agenda to ensure that any emerging risks are identified at the earliest point.</p> <p>Use is made of the Corporate Management System (PRISM) to monitor risks in the context of performance monitoring and operational management.</p> <p>A meeting on 18th May 2007 considered this Statement of Internal control and supporting evidence</p>	

COMMENTS	ACTION REQUIRED	TIMETABLE	RESPONSIBLE OFFICER(S)	MONITORING METHOD
2. Corporate Capacity **				
<p>The pace of change and ambitious work programme has a number of impacts:-</p> <ul style="list-style-type: none"> a) Pressure upon individual key officers b) Pressure to omit internal control processes to shorten the time to meet deadlines. c) Failure to invest in the long- term capacity of the organisation through appropriate management and staff training due to individual officers not having time to commit to this. d) Demands from joint working / shared services agenda 	<p>The Organisation and Development Group debate regularly key issues to maintain corporate capacity their work and other actions include:</p> <p>A review of staff training and competency framework is in progress to ensure that council officers have the knowledge, skills and competencies to deliver both new projects and existing services.</p> <p>The new Corporate Plan will be developed allowing for the capacity of both officers and members to deliver.</p> <p>Opportunities provided by joint working and the shared services agenda will be exploited to increase capacity to deliver services and projects within existing resources.</p> <p>Bite sized training began in April 2007 to address training needs, competency framework approved by Management Team 29.03.07 to be used for Job Descriptions and Person Specifications. Organisation & Development Group reviewing training policy and identifying how training needs will be met.</p> <p>Efficiency group recommends evaluation of shared services using 4P's document.</p>	April 2008	Chief Executive	Management Team

** Risk Register Items: Marlowe Theatre, Beaney and Wincheap Redevelopment Projects, St Peters/ St Dunstan's Regeneration Project, The Efficiency Agenda, Management Skills and Staff Development, Succession Planning, Fraud & Corruption.

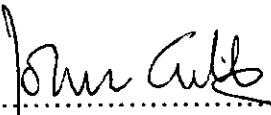
COMMENTS	ACTION REQUIRED	TIMETABLE	RESPONSIBLE OFFICER(S)	MONITORING METHOD
3. Contract Management ***				
<p>Improvements have been made in most areas of contract management and monitoring to ensure that value for money is being achieved consistently across all areas.</p> <p>The council has signed up to a protocol for shared service delivery which includes joint procurement</p> <p>The critical nature of having single suppliers for many of its services requires establishing and maintaining good working relationships across all areas of work to optimise the benefits of working in partnership.</p> <p>There is still scope for improved financial management information from the council's main contractor</p>	<p>To improve the communication and partnership working with its main contractors to reduce the risk of service failure and to ensure that it enhances its ability to meet other corporate objectives.</p> <p>Specifically:</p> <ul style="list-style-type: none"> a) to ensure that contractors provide regular, accurate and timely financial and performance information for performance monitoring b) To ensure that robust inspection and monitoring systems exist for all areas of activity. c) To ensure that similar reporting and monitoring routines are applied to its major partnerships. d) To ensure that major procurements include adequate contract management routines. <p>Report to Members for consideration of adopting Gateway process.</p>		All Heads of Service	Management Team

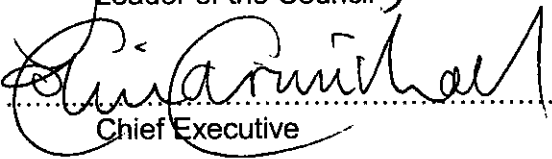
*** Risk Register Items: CHARM contract, CDESC contract, Active Life contract, Procurement

6. OVERALL ASSESSMENT

The council has authorised the Director of Corporate Services to oversee the development of a system of continuous review of corporate governance throughout the organisation and to report annually on this process.

As a result of this review, including findings from other internal and external audits, we are satisfied that corporate governance arrangements are sound and are operating effectively. The most significant internal control issues are listed at 5, above.

Signed 
Leader of the Council

Signed 
Chief Executive

Independent auditor's report to the Members of Canterbury City Council

Opinion on the financial statements

I have audited the financial statements of Canterbury City Council for the year ended 31 March 2007 under the Audit Commission Act 1998, which comprise the Income and Expenditure Account, Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Canterbury City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements present fairly the financial position of the authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

I review whether the statement on internal control reflects compliance with CIPFA's guidance 'The statement on internal control in local government: meeting the requirements of the Accounts and Audit Regulations 2003' issued in April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the authority's corporate governance procedures or its risk and control procedures.

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information only comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the authority as at 31 March 2007 and its income and expenditure for the year then ended.

.....*Lindsey Mallors*..... (Lindsey Mallors, District Auditor)

Date*28/9/07*.....

Address: Audit Commission, 16 South Park, Sevenoaks, Kent TN13 1AN