

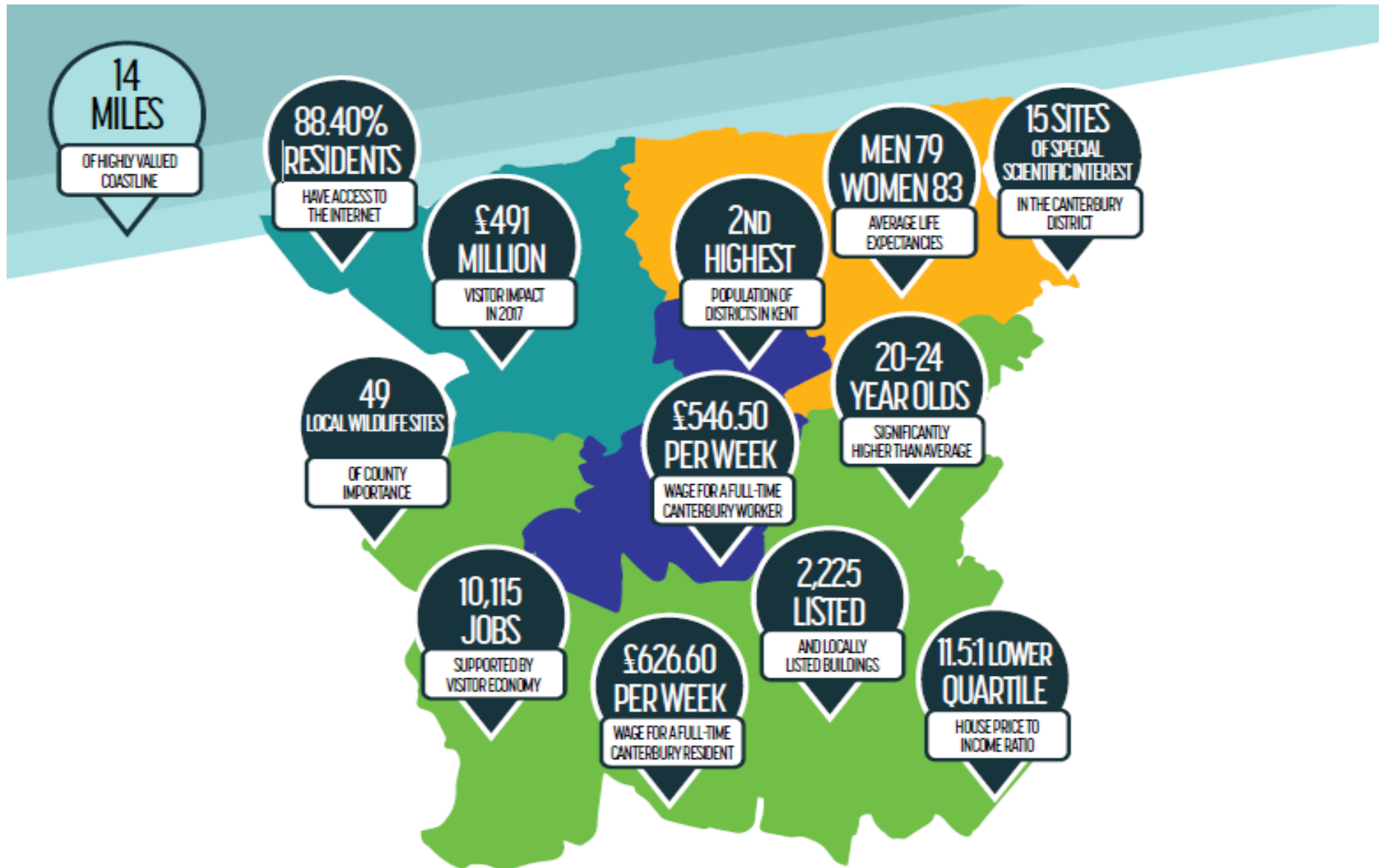
Statement of Accounts

**for the
Year Ended**

31 March 2020

Patricia Marshall CPFA
Deputy Chief Executive

Canterbury City Council – information about the district



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THE STATEMENT OF ACCOUNTS

NARRATIVE REPORT

Introduction

This narrative report provides a guide to the Council's accounts and financial position as at 31 March 2020. It includes:

- An explanation of each of the main financial statements;
- A look back at financial and non-financial performance in 2019/20;
- Any major events or changes in presentation and accounting that impact on the Accounts; and
- Future financial challenges.

Explanation of the main financial statements

The Accounts and Audit Regulations 2015 require the Statement of Accounts to be prepared and signed by the responsible officer by 31 May 2020, this year however that deadline has been extended due to the COVID-19 pandemic. The accounts are set out on pages 17 to 89. The statements have been prepared in accordance with proper accounting practices and all relevant statutory requirements.

Proper accounting practices represent compliance with the following:

- All relevant International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB - a constituent board of the Financial Reporting Council)
- The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom, prepared under International Financial Reporting Standards

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

The Statement of Accounts comprises:

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

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

- ***Core Financial Statements***

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

- **[Comprehensive Income and Expenditure Statement](#)**

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

may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

- [Balance Sheet](#)

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

- [Movement in Reserves Statement](#)

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

- [Cash Flow Statement](#)

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

- [Notes to the Core Financial Statements](#)

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

- ***Supplementary Financial Statements***

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

- [Housing Revenue Account](#)

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

- [Collection Fund](#)

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

- ***Annual Governance Statement***

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

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

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

Looking back at performance in 2019/20

The Council has the following objectives.

People - residents enjoy a good quality of life and those in need are supported. It aims to do this by:

1. working to achieve enough high quality housing to meet everyone's needs
2. contributing to the good health of local people
3. focussing our community support on those in most need of it
4. acting with others to protect communities from flooding, crime and anti-social behaviour
5. inspiring people through a wide range of cultural activities and opportunities

Places – we make the most of our unique built and natural environment, by:

6. making our city, towns and villages places to be proud of
7. keeping our district clean
8. protecting and enhancing our open spaces, heritage and wildlife

Prosperity – the district has a resilient, diverse economy which supports jobs growth, by:

9. supporting business growth
10. enabling infrastructure improvements to regenerate our urban spaces and deliver economic growth

The Council's annual performance outturn report will set out the Council's performance against its key performance indicators for 2019/20. The performance at the half year stage is set out here [Half Year Performance Report - 2019/20](#). Of the 52 reported performance indicators, 13 exceeded target, 9 were on target, 4 were under target but within threshold, 13 were under target and 13 were data only. There were no areas of serious concern at the half year stage.

Outside these performance indicators, there was serious concern over the performance of East Kent Housing. Non-compliance with tenant health and safety requirements led to all four East Kent authorities deciding to bring housing management services back in house. Services are currently planned to be returned to this Council on 1 October 2020.

Details regarding the council's organisational and political structure and the services that it provides can be found on the council's website [Canterbury City Council](#).

Financial performance in 2019/20

This section gives an overview of the financial performance of the Council in 2019/20 for both General Fund and Housing Services, including reasons for significant variations from planned expenditure.

General Fund Revenue Expenditure

The General Fund accounts for all revenue (day to day) services other than those provided in respect of council housing. The Council set its budget for 2019/20 at the budget meeting on 14 February 2019.

The budget strategy aimed to ensure that the Council had a balanced and sustainable budget that provided the financial resources needed to implement its key priorities. The Council has a successful record in delivering its strategy and for 2019/20 it continued with the approach adopted in previous years:

- Undertaking commissioning reviews of all services and contracts, to challenge how and why services are delivered and to enable the Council to deliver its desired outcomes in the most cost effective way;
- transforming service delivery through its digital by design programme;
- investing in and managing its property assets to generate income streams that can support the budget;
- looking to recover the cost of delivering services, particularly where the service is discretionary and/or used by a minority of taxpayers;
- planning its use of resources over a four-year period, to enable it to manage emerging cost pressures and to address these in a considered and cost-effective manner;
- keep a minimum General Fund Reserve level of 10% of net service expenditure;
- respond to new demands and pressures for services by seeking compensating savings from elsewhere in the budget;
- apply project appraisal, business planning and affordability processes including whole life costings to any significant new developments;
- bid for external funding, recognising that some service enhancements can only be achieved in this way;
- minimise any adverse impact on the revenue account of its capital programme;
- look for best value from developers in terms of Section 106/CIL contributions for community interest; and
- review and tightly manage its inflation pressures.

The total savings target for 2019/20 was £2.6m and the contribution from the General Fund was set at £200,000.

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

| Service Area | Net budget | Outturn | Net |
|---------------------------------|-----------------|-----------------|-----------------------|
| | | | Variance ()=saving |
| | £'000 | £'000 | £'000 |
| Corporate Management | 7,830 | 5,804 | (2,027) |
| Property & Regeneration | (9,028) | (8,725) | 303 |
| Planning | 853 | 794 | (59) |
| Transport & Environment | 598 | 622 | 24 |
| Development Total | (7,577) | (7,309) | 268 |
| Digital Transformation & Policy | 1,736 | 1,869 | 133 |
| Commissioned Services | 8,053 | 9,943 | 1,890 |
| Community Services | 5,034 | 4,969 | (65) |
| Finance Team | 877 | 841 | (36) |
| HR & Training | 243 | 224 | (19) |
| Revenues & Benefits | 784 | 921 | 137 |
| Legal Team | 72 | (118) | (190) |
| Total net expenditure | 17,052 | 17,143 | 91 |
| Revenue Support Grant | 0 | 0 | 0 |
| NDR allocation | (4,670) | (4,670) | 0 |
| New Homes Bonus | (1,767) | (1,767) | 0 |
| Council Tax | (11,397) | (11,397) | 0 |
| Collection Fund adjustment | (4) | (4) | 0 |
| Parish precepts | 786 | 786 | 0 |
| Total income sources | (17,052) | (17,052) | 0 |
| Net position | 0 | 91 | 91 |

The overall revenue outturn position for 2019/20 was an overspend of £92,000. The main variances to the budget are set out below.

| Activity | Variance (£000) ()=favourable | Explanation |
|---------------------------|-------------------------------------|---|
| Corporate Management | (2,026) | Underspends in this reporting area (capital financing and contingencies) were used to cover the overspends across the other council services |
| Property and Regeneration | 303 | Loss of property rent due to the delay in reletting at Wincheap |
| Commissioned Services | 1,890 | Shortfall in parking income and overspends on Kings Hall, Museums and the Ice Rink trial and waste and grounds maintenance contract overspends. This was offset by the savings held on corporate management |

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|--------------------------------|-------|--|
| | | codes |
| Digital, Transformation Policy | 133 | The costs of the transformation consultants were charged here – costs offset by the savings held on corporate management |
| Revenues and Benefits | 137 | Overspend due to increase in fees paid to Civica for service enhancements and a loss of subsidy recoverable for 2019/20. |
| Legal Services | (190) | Staff vacancies and an increase in cost recovery. |

Housing Revenue Expenditure

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

| | Net budget £'000 | Outturn £'000 | Net Variance (=saving) £'000 |
|------------------------------------|------------------------|------------------|---------------------------------------|
| General management | 3,561 | 3,621 | 60 |
| Special services | 2,433 | 2,315 | (119) |
| Rent, rates & charges | 395 | 401 | 6 |
| Repairs & maintenance | 6,896 | 7,156 | 260 |
| Bad debt provision | 200 | 341 | 141 |
| Rents & service charges receivable | (24,653) | (25,337) | (684) |
| Total HRA direct budgets | (11,167) | (11,503) | (336) |
| Support costs | 743 | 800 | 57 |
| Capital charges | 5,442 | 4,593 | (849) |
| Total HRA indirect budgets | 6,185 | 5,393 | (792) |
| Self financing debt | 6,416 | 6,399 | (17) |
| (Surplus)/Deficit | 1,434 | 289 | (1,145) |

The overall revenue outturn position for 2019/20 was a deficit of £289k a reduction of £1.1m on the £1.4m budgeted deficit. The explanations for the main variance to the budget are set out below.

| Activity | Variance (£000) (=favourable) | Explanation |
|------------------|-------------------------------------|--|
| Special services | (119) | Communal accommodation has an overspend of £127,000, predominantly due to an overspend of £82,000 on grounds maintenance, this budget has been reviewed and increased for 2020/21. There was also an overspend across utilities of £39,000. A percentage of the EKH management fee is allocated to Special services and due to the additional resources provided for the compliance and estate services this is overspent by £52,000. The budget for the subsidy to make up for the loss of income from supporting people grant for |

| | | |
|---------------------------|-------|---|
| | | <p>lifeline service and sheltered housing related support was based on the maximum subsidy that might need to be paid for residents on partial housing benefit, these costs are reducing and are £131,000 under budget.</p> <p>Sheltered Schemes & Sheltered Plus Schemes have an underspend of £140,000. £98,000 was across utilities and £22,000 on equipment & furniture.</p> <p>Lifelines were underspent by £22,000 due to a reduction in the number of units within the HRA and hence a decrease in the contribution to the General Fund.</p> |
| Repairs & maintenance | 260 | <p>There are various under/over spends within the repairs and maintenance budgets but the main areas are listed below;</p> <p>Service & remedial work was £232,000 underspent as there was a lower number of repairs on boilers than in previous years. The number of water safety remedial works was also lower than expected.</p> <p>Repairs to buildings £345,000 overspend is due to large numbers of works identified in the year which did not fall under the price per property scope in the repairs contract. Spend also sharply increased in the last quarter as a large number of repairs resulting from the several weeks of storms were identified and carried out.</p> <p>VOIDS - Non Price Per Property (PPP) is £245,000 overspent due to the high number of voids coming back to EKH in poor condition requiring a lot of additional work which falls outside the scope of PPP. This issue is reflected in the major works void capital budget which is also overspent.</p> <p>Asbestos removal £218,000 overspend is due to high number of asbestos surveys and related works carried out both on repair and void works but also for communal areas. The communal spend was higher for 2019/20 specifically but will not be as high going forward.</p> <p>Electrical testing £293,000 underspend is due to a review of the electrical testing and related works and the split between revenue and capital. This decreased the amount related to testing. The works were also hindered and significantly reduced when lockdown started in the last quarter.</p> |
| Bad debt provision | 141 | <p>The level of arrears at year end was higher than expected. Therefore, the contribution to the bad debt reserve was higher than budgeted for.</p> |
| Rents and service charges | £684) | <p>Dwelling rents, garages and service charges income was £554,000 higher than budgeted. This is mainly due to the budget being set on the normal 50 weeks of income but there were 51 weeks in 2019/20.</p> <p>Leaseholders service charge income generated also exceeded budget by £44,000.</p> <p>East Kent Housing has now started to raise invoices again for rechargeable works and £55,000 of invoicing was raised in 2019/20. At the budget setting stage it was not known this activity had been reinstated so no income target was set.</p> |
| Capital charges | (849) | <p>During the budget setting process it was forecast that the</p> |

| | | |
|--|--|---|
| | | capital programme for 2018/19 and 2019/20 would require £11,700,000 of external borrowing. However the capital financing for 2018/19 was achieved without the need for any external borrowing. The HRA share of borrowing cost for 2019/20 was only £38,000. Therefore the budget for the repayment of borrowing is £625,000 underspent. There is also an underspend on depreciation of £216,000 which is due to an overestimation during the budget setting process. |
|--|--|---|

Capital Expenditure

General Fund Capital Expenditure

Capital expenditure relates to spending on assets which last for more than one year. The capital programme for 2019/20 and beyond represents the investment priorities for the Council. The revenue impact of implementing the capital programme is reflected in the revenue budget.

The City Council's gross expenditure on capital schemes in 2019/20 was £17.6m. This was financed by grants, capital receipts, reserves and revenue contributions. The net outturn position of the capital programme after external contributions is detailed in the table below.

| Service Area | Net Budget | Net Actual spend | Carried forward | Net Variance () = saving |
|-------------------------------|---------------|------------------|-----------------|------------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Commissioned Services | 13,447 | 1,386 | 12,053 | (7) |
| Community Services | 3,398 | 1,479 | 2,146 | 228 |
| Property & Regeneration | 20,246 | 3,885 | 16,085 | (276) |
| Transportation & Environment | 11,741 | 6,938 | 5,083 | 281 |
| Development Total | 31,987 | 10,823 | 21,168 | 5 |
| Digital Services | 300 | 300 | 0 | 0 |
| Finance & Procurement | 2,956 | 0 | 2,000 | (956) |
| Total Capital Projects | 52,088 | 13,989 | 37,368 | (731) |

The main expenditure items in 2019/20 were the completion of the multi-storey car park at Station Road West; the commencement of the Canterbury Riverside development and Kingsmead Field Housing.

The main items carried forward were the Fusion Leisure Centre refurbishment, the regeneration projects at Kingsmead and Beach Street and Canterbury Riverside project.

HRA capital Expenditure

| Scheme | 2019/20 Net Budget £'000 | 2019/20 Net Outturn £'000 | 2019/20 Slippage £'000 | 2019/20 Net Position £'000 |
|-----------------------------------|---|--|---------------------------------------|---|
| Internal works | 3,983 | 3,296 | 990 | 303 |
| External works | 2,192 | 893 | 425 | (874) |
| Procurement & Contract Management | 134 | 5 | 119 | (10) |
| Fire Prevention Works | 2,776 | 2,423 | 50 | (303) |
| Major Void Works | 300 | 541 | 150 | 391 |
| Hostel Project | 800 | 9 | 0 | (791) |
| Parham Project | 5,300 | 4,059 | 1,241 | 0 |
| Total | 15,485 | 11,226 | 2,975 | (1,284) |

The internal works overspent by £303k taking into account the request for slippage to complete works in 2020/21. The main area of overspend relates to rewiring works required to complete the work identified from electrical testing and disabled adaptations where more flush floor showers were installed than originally budgeted. These costs have been partially offset by underspends on central heating works where the focus was on maintenance in 2019/20.

The external works underspend is predominantly due to re-roofing, underpinning and structural works and work on bin stores. The 2020/21 budget has allowance for the work to be completed for these area of spend hence the reported underspend for 2019/20.

2019/20 saw a higher than expected level of voids being returned in poor condition requiring additional capital expenditure that resulted in the overspend.

The fire prevention works were delayed in 2019/20 with the final elements of the project to be completed in 2020/21.

The budget originally allowed for refurbishment of the hostels on New Dover Road. A review of this project resulted in the sale of the properties which generated a capital receipt for the HRA and a saving on the original capital budget.

Balance sheet

The Council's net assets decreased by £44m (10%) over the past year. The main reasons for this change were:

- an increase of £11m in the value of assets under construction reflecting the number of large scale capital projects in progress;
- a reduction in the value of land and buildings (excluding council dwellings) of £47m, due to the current economic challenges;
- an increase in short term borrowing of £11m but a reduction in long term borrowing of £10m; and
- an increase in the pension deficit of £3m.

The two biggest liabilities on the balance sheet are long term borrowing at £168m and the pension deficit at £79m. The majority of the Council's debt is with the Public Works Loan Board at

a fixed rate of interest, with an average of 2.84%. The Council has continued its policy of using short term borrowing to partly fund its capital programme. This has reduced borrowing costs but exposes the Council to interest rate variations.

Overall the Council's balance sheet has become less liquid, as capital expenditure has been funded from capital receipts, withdrawing from short term investments and short term external borrowing. In the medium and longer term, as internal borrowing and short term borrowing is repaid, the Council's liquidity will improve.

The Council is a member of the Local Government Pension Scheme, which is administered on behalf of the Council by Kent County Council. The Statement of Accounts reflects the full adoption of International Accounting Standard 19 (Retirement Benefits) (IAS19). This value is assessed by the actuary in accordance with prescribed accounting rules. Note 28 shows that the total value of liabilities (i.e. future commitments from the fund) is the Council's net liability of £201m whereas the estimated assets are valued at £122m – a net deficit of £79m. The deficit has increased from £76m to £79m at 31 March 2020, an increase of £3.4m.

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

The scheme has been assessed by Barnett Waddingham, an independent firm of actuaries, on behalf of Kent County Council based upon the full valuation of the scheme as at 31 March 2019. As a result of that valuation the Council's contributions for future service have increased to a rate of 18.4% of pay. The contribution for past service has reduced from previous levels, based on the deficit being cleared over eight years. The fund is next due for revaluation as at 31 March 2022 and new contribution rates will apply from April 2023.

Significant changes to local authority financial regime in 2019/20

There have been no significant changes to the local authority financial regime in 2019/20.

Future challenges

General

The future for local government funding remains very uncertain, with no information available on funding from April 2020 onwards. In setting out its medium term financial plan (MTFS) the Council has assumed substantial reductions in government funding.

The budget strategy is intended to ensure that the Council has a balanced and sustainable budget that provides the financial resources needed to implement its key priorities. The Strategy runs to the end of the new Council term in order to aid longer term planning.

The items set out below are considered the main issues that will have an impact on the Council's budget strategy and financial planning in the medium term.

Covid 19

On 23 March the government imposed a lockdown on the whole population, restricting all non-essential travel and contact with people outside of the home and closed almost all businesses,

venues and facilities. As a result the Council is working closely with central government, related agencies, the voluntary sector, town and parish councils and the health service to support businesses and residents.

Business rates relief and grants for businesses in the retail, hospitality and leisure sectors have been administered in line with government guidelines helping nearly 3,000 businesses in the district. Additional council tax relief has been given to recipients of council tax support through the government's hardship fund.

A community hub was set up in collaboration with partners and volunteers to support vulnerable residents, ensuring food and other essential items were delivered to those with particular health conditions. The Council has provided accommodation for all the district's known rough sleepers and continued to provide housing to others where its duty to do so had ceased.

It is anticipated that the pandemic will have a significant impact on the council's ability to collect income, both from taxpayers and services such as car parking and planning, as well as from property rents. There are also additional cost pressures as the council responds to the outbreak and provides support to the most vulnerable residents.

There was little financial impact on the 2019/20 financial position as the pandemic was declared late in March, but there will be significant challenges in the year ahead, and potentially future years as Council deals with the ongoing crisis. Given the uncertainty around the full extent of the economic impact at this stage, it is difficult to estimate with any confidence the likely impact on the Council's financial position. The Government has allocated emergency Covid-19 funding to local authorities but this will not be sufficient to cover the estimated budget gap.

The Council has reviewed its budget for 2020/21 and the Covid-19 Emergency Committee approved a revised budget on 28 May 2020. The report estimated that the shortfall for the year could be £12.5m, with optimistic and pessimistic scenarios ranging from £8.6m to £16.9m, and put forward proposals to close the budget gap. The main proposals were:

- Pausing virtually all non-contracted capital projects;
- Keeping any vacant staff posts unfilled and holding back on any non-essential expenditure;
- Making extensive use of reserves.

Further details are set out in the report to the Covid-19 Emergency Committee on 28 May 2020. The Committee will receive an update on the Council's financial position by the end of September 2020. The Medium Term Financial Strategy (MTFS) will continue to be revised as the position evolves.

As a billing authority the Council's cash flow is subject to pressure as it continues to pay precepting authorities their shares of budgeted business rates and council tax income not taking into account any reduction in collection rates. The government has introduced short term measures to provide immediate relief and daily cash flow monitoring is being undertaken for early identification of pressure points.

East Kent Housing (EKH) and the Housing Revenue Account (HRA)

After discovering problems with some health and safety procedures, Canterbury City Council, along with the other three Council owners (Dover District Council, Folkestone & Hythe District Council and Thanet District Council) proposed to close EKH and deliver housing services

themselves. In October 2019 tenants and leaseholders were consulted and asked for their views on the future of EKH and the results showed an overwhelming desire to disband EKH and for the councils to take on its role. In February 2020 all four council owners agreed that the management of council housing stock should be brought back in-house and that a termination of the management agreement with EKH should be negotiated and concluded as soon as practicable.

Work is underway between the councils and EKH to create a smooth transition process and in the meantime housing and support services for tenants continue to be provided by EKH. The planned transfer date is 1 October 2020.

As well as these service delivery challenges, the HRA business plan has identified the need to make significant savings in HRA expenditure in order to ensure a balanced budget for the HRA in future years.

Climate Change

On 18 July 2019 Full Council declared a climate change emergency and resolved to set a target in its corporate plan to reduce its carbon emissions to net zero by 2030. A Councillor Working Group has been established to oversee development of the Council's approach.

Risk management

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

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

Conclusions

In a regime of reducing central funding and increased uncertainty, the City Council has substantially delivered its financial plan for 2019/20 and preparatory work is in place to deliver further savings in future years whilst continuing to strive to minimise the impact on services.

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



Deputy Chief Executive and s151 officer
4 November 2020

Comprehensive Income and Expenditure Statement for the year ended 31 March 2020

This statement shows the accounting cost of providing services in the year ended 31 March 2020, in accordance with generally accepted accounting practices, rather than the amount to be funded from the taxation. The taxation position is shown in the Movement in Reserves Statement.

| 2018/19 Re-stated* | | | | 2019/20 | | |
|-----------------------|------------------|-----------------|---|----------------|------------------|---------------|
| Gross Exp | Income | Net Exp | Note | Gross Exp | Income | Net Exp |
| £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 |
| 4,546 | (6,981) | (2,435) | Corporate Management | 5,163 | (4,466) | 697 |
| 14,136 | (17,190) | (3,054) | Development | 46,599 | (15,608) | 30,991 |
| 2,117 | (345) | 1,773 | Digital Transformation & Policy | 2,217 | (207) | 2,010 |
| 30,900 | (22,460) | 8,440 | Commissioned Services | 24,682 | (13,001) | 11,680 |
| 13,693 | (7,213) | 6,480 | Community Services | 14,834 | (8,727) | 6,106 |
| 1,407 | (332) | 1,075 | Finance Team | 1,321 | (342) | 979 |
| 335 | (88) | 247 | HR & Training | 363 | (140) | 224 |
| 214 | (281) | (68) | Legal Team | 330 | (372) | (42) |
| 44,462 | (43,634) | 828 | Revenues & Benefits | 38,686 | (37,919) | 767 |
| 36,601 | (25,315) | 11,285 | Housing Revenue Account | 28,420 | (25,399) | 3,021 |
| 148,410 | (123,840) | 24,569 | Cost of Services | 162,614 | (106,181) | 56,433 |
| | | | Other Operating Expenditure | | | |
| 0 | (2,915) | (2,915) | Loss/(Gain) on Sales of Assets | 0 | (2,017) | (2,017) |
| 850 | 0 | 850 | Parish Council Precepts & Drainage Board Levy | 920 | 0 | 920 |
| 539 | 0 | 539 | Housing Capital Receipts Cont to Govt Pool | 539 | 0 | 539 |
| | | | Financing & Investment Income & Expenditure | | | |
| 6,133 | 0 | 6,133 | Interest Payable on Debt | 5,449 | 0 | 5,449 |
| 2,099 | 0 | 2,099 | Net interest on the net defined benefit liability | 28.1 | 1,766 | 0 |
| 46 | (451) | (405) | Investment interest and other income | 24 | (314) | (289) |
| 0 | (250) | (250) | Investment properties income and expenditure | 0 | (250) | (250) |
| 198 | 0 | 198 | Change in Fair Value of Investment Properties | 0 | 0 | 0 |
| 145 | (160) | (15) | Surplus from Trading Operations | 153 | (154) | (1) |
| 54 | 0 | 54 | Impairment adjustments | 447 | 0 | 447 |
| | | | Taxation & Non-Specific Grant Income & Expenditure | | | |
| 585 | (4,074) | (3,489) | Recognised Capital Grants & Contributions | 20 | 683 | (1,725) |
| 31 | (11,269) | (11,238) | Income from the Collection Fund | 0 | (12,022) | (12,022) |
| 27 | (10,132) | (10,105) | Non ring-fenced Government Grants | 20 | 442 | (8,220) |
| 159,118 | (153,092) | 6,025 | (Surplus)/deficit on provision of services | 173,038 | (130,882) | 42,156 |
| | | | (Surplus)/deficit on revaluation of non current assets | | | 18.1 |
| | | (19,342) | | | | 1,233 |
| | | | Remeasurement of the net defined benefit liability | | | 28.1 |
| | | (9,644) | | | | 660 |
| | | (22,960) | Total Comprehensive Income & Expenditure | | | 44,049 |

*2018-19 comparatives have been re-stated for the transfer of parking services in 2019/20 from Community Services to Commissioned Services as follows:

| | Gross Expenditure £'000 | Income £'000 | Net Expenditure £'000 |
|-----------------------|-------------------------|--------------|-----------------------|
| Community Services | (4,410) | 9,411 | 5,001 |
| Commissioned Services | 4,410 | (9,411) | (5,001) |

Balance Sheet as at 31 March 2020

| 2019 | | Notes | 2020 | |
|--------------------------------------|------------------|-------|-----------------|------------------|
| £'000 | £'000 | | £'000 | £'000 |
| Property, Plant and Equipment | | | | |
| 319,590 | | 10 | 320,093 | |
| 342,883 | | | 295,117 | |
| 21,325 | | | 20,917 | |
| 5,778 | | | 5,757 | |
| 1,466 | | | 1,705 | |
| <u>8,696</u> | | | <u>19,840</u> | |
| | 699,738 | | | 663,430 |
| | 12,843 | 10.1 | | 12,701 |
| | 0 | 10 | | 266 |
| | <u>4,348</u> | 10 | | <u>4,348</u> |
| | 716,929 | | | 680,745 |
| | 1,578 | | | 1,480 |
| | <u>3,739</u> | 13 | | <u>3,401</u> |
| | 722,245 | | | 685,626 |
| Current Assets | | | | |
| 5,268 | | 12.5 | 9,332 | |
| 95 | | | 87 | |
| 12,306 | | 14 | 10,189 | |
| 133 | | | 252 | |
| 350 | | 10.2 | 0 | |
| <u>708</u> | | 15 | <u>(565)</u> | |
| | 18,860 | | | 19,295 |
| | 741,105 | | | 704,920 |
| Current Liabilities | | | | |
| (18,764) | | 16 | (19,002) | |
| (2,377) | | 16.1 | (5,627) | |
| (38,255) | | 12 | (49,410) | |
| <u>(4,018)</u> | | 33 | <u>(4,644)</u> | |
| | (63,414) | | | (78,683) |
| | 677,691 | | | 626,237 |
| Long Term liabilities | | | | |
| (1,312) | | 30 | (841) | |
| (178,833) | | 12 | (168,469) | |
| (59) | | | (59) | |
| <u>(75,872)</u> | | 28.2 | <u>(79,303)</u> | |
| | (256,077) | | | (248,672) |
| | 421,614 | | | 377,565 |
| Usable Reserves | | | | |
| (4,192) | | 17 | (3,400) | |
| (4,177) | | | (3,888) | |
| (18,512) | | 9 | (20,917) | |
| (1,053) | | | (1,472) | |
| <u>(5,843)</u> | | | <u>(5,430)</u> | |
| | (33,776) | | | (35,107) |
| Unusable Reserves | | | | |
| (230,880) | | 18.1 | (228,985) | |
| (232,930) | | 18.2 | (193,333) | |
| 371 | | | 561 | |
| 75,872 | | 18.3 | 79,303 | |
| 0 | | | 0 | |
| (441) | | | (173) | |
| 170 | | | 170 | |
| | (387,838) | | | (342,458) |
| | (421,614) | | | (377,565) |

Movement in Reserves Statement

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

| Movement in Reserves 2019/20 | General Fund Balance | Earmarked Reserves | General Fund Total | Housing Revenue Account | Major Repairs Reserve | Capital Receipts Reserve | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | Total Council Reserves |
|---|----------------------|--------------------|--------------------|-------------------------|-----------------------|--------------------------|--------------------------|-----------------------|-------------------|------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance at 31 March 2019 | (4,192) | (18,512) | (22,703) | (4,177) | 0 | (1,053) | (5,843) | (33,776) | (387,838) | (421,614) |
| Movement in reserves during 2019/20 | | | | | | | | | | |
| (Surplus) or deficit on provision of services | 39,591 | 0 | 39,591 | 2,565 | 0 | 0 | 0 | 42,156 | 0 | 42,156 |
| Other comprehensive income and expenditure | (121) | 0 | (121) | 121 | 0 | 0 | 0 | 0 | 1,893 | 1,893 |
| Total comprehensive Income and Expenditure | 39,469 | 0 | 39,469 | 2,687 | 0 | 0 | 0 | 42,156 | 1,893 | 44,049 |
| Adjustments between accounting basis and funding basis under regulations (Note 6) | (41,089) | 0 | (41,089) | (2,393) | 0 | (419) | 413 | (43,487) | 43,487 | (0) |
| Net (increase)/decrease before transfers to Earmarked Reserves | (1,619) | 0 | (1,619) | 294 | 0 | (419) | 413 | (1,331) | 45,380 | 44,049 |
| Transfers to/(from) Earmarked Reserves (Note 9) | 2,411 | (2,405) | 5 | (5) | 0 | 0 | 0 | 0 | 0 | 0 |
| (Increase)/Decrease in year | 791 | (2,405) | (1,614) | 289 | 0 | (419) | 413 | (1,331) | 45,380 | 44,049 |
| Balance at 31 March 2020 carried forward | (3,400) | (20,917) | (24,317) | (3,888) | 0 | (1,472) | (5,430) | (35,107) | (342,458) | (377,565) |

| Movement in Reserves 2018/19 | General Fund Balance | Earmarked Reserves | General Fund Total | Housing Revenue Account | Major Repairs Reserve | Capital Receipts Reserve | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | Total Council Reserves |
|---|----------------------|--------------------|--------------------|-------------------------|-----------------------|--------------------------|--------------------------|-----------------------|-------------------|------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance at 31 March 2018 carried forward | (4,380) | (18,858) | (23,238) | (12,975) | 0 | (7,704) | (4,389) | (48,306) | (350,348) | (398,654) |
| Movement in reserves during 2018/19 | | | | | | | | | | |
| (Surplus) or deficit on provision of services | (5,024) | 0 | (5,024) | 11,049 | 0 | 0 | 0 | 6,025 | 0 | 6,025 |
| Other comprehensive income and expenditure | (121) | 0 | (121) | 121 | 0 | 0 | 0 | 0 | (28,986) | (28,986) |
| Total comprehensive Income and Expenditure | (5,145) | 0 | (5,145) | 11,170 | 0 | 0 | 0 | 6,025 | (28,986) | (22,961) |
| Adjustments between accounting basis and funding basis under regulations (Note 6) | 5,643 | 0 | 5,643 | (2,335) | 0 | 6,651 | (1,454) | 8,505 | (8,505) | 0 |
| Net (increase)/decrease before transfers to Earmarked Reserves | 497 | 0 | 497 | 8,835 | 0 | 6,651 | (1,454) | 14,530 | (37,490) | (22,961) |
| Transfers to/(from) Earmarked Reserves (Note 9) | (309) | 347 | 38 | (38) | 0 | 0 | 0 | 0 | 0 | 0 |
| (Increase)/Decrease in year | 188 | 347 | 535 | 8,797 | 0 | 6,651 | (1,454) | 14,530 | (37,490) | (22,961) |
| Balance at 31 March 2019 carried forward | (4,192) | (18,512) | (22,703) | (4,177) | 0 | (1,053) | (5,843) | (33,776) | (387,838) | (421,614) |

Cash Flow Statement

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

| 2018/19 | | 2019/20 |
|-----------------|---|-----------------|
| £'000 | | £'000 |
| 6,025 | Net (surplus) or deficit on the provision of services | 42,155 |
| | Adjust net surplus or deficit on the provision of services for non-cash movements | |
| (11,230) | Less depreciation of fixed assets | (11,276) |
| (21,113) | Less impairment of fixed assets | (47,244) |
| (54) | Movement in bad debt provision | 91 |
| (1,802) | Movement in revenue creditors | 2,249 |
| 62 | Movement in long term debtors | (152) |
| 129 | Movement in provisions | 70 |
| 4,464 | Movement in deposits | (3,250) |
| | Items on accruals basis (assets) | |
| 2,941 | Movement in revenue debtors | (1,670) |
| (115) | Movement in payments in advance | 119 |
| (44) | Movement in inventories | (7) |
| (4,656) | Net charges made for retirement benefits in accordance with IAS19 | (7,004) |
| 4,526 | Fund and retirement benefits payable direct to pensioners | 4,233 |
| (3,303) | Carrying amount of non-current assets sold | (350) |
| 240 | Other non-cash items charged to the net surplus or deficit on the provision of services | 0 |
| | Difference between amounts debited/credited to the I&E account and amounts payable/receivable re soft loans and premiums on the | |
| 38 | early repayment of debt | (190) |
| (198) | Movements in the value of investment properties | 0 |
| 0 | Other revaluations to CIES | 0 |
| (15) | Movement in accrual on investments | 0 |
| 5 | Movement in deferred premiums less discounts | (17) |
| (106) | Movement in accrual on borrowing | 169 |
| 3,489 | Capital grants and capital income applied | 1,043 |
| 16 | Collection fund adjustment for CCC | (4) |
| 0 | REFCUS funded from reserves | 0 |
| (20,701) | | (21,037) |
| | Adjust for items included in the net surplus or deficit on the provision of services that are investing activities | |
| 5,737 | Proceeds from the sale of property, plant and equipment | 3,863 |
| (288) | Council Tax receipts paid to major preceptors less receipts | (1,056) |
| (31,278) | NDR receipts under/over paid to the government * | (5,829) |
| (25,829) | | (3,022) |
| (46,530) | Net flows from operating activities | (24,059) |

| 2018/19 | | 2019/20 |
|------------------------|--|-----------------------|
| £'000 | Cash Flow continued | £'000 |
| (46,530) | Net flows from operating activities (b/f) | (24,059) |
| | Capital Activities | |
| | Cash outflows | |
| 31,576 | Purchase of property, plant and equipment, investment property and intangible assets | 22,578 |
| <u>226,067</u> | Purchase of investments | <u>209,082</u> |
| 257,643 | | <u>231,659</u> |
| | Cash inflows | |
| | Proceeds from sale of property, plant and equipment | |
| (5,737) | Investment property and intangible assets | (3,863) |
| (3,489) | Capital grants received | (1,043) |
| (224) | Capital debtors movement | (439) |
| (237,652) | Investments redeemed | (204,840) |
| | Other receipts from investing activities (principal repayments of Soft Loans etc) | |
| (175) | | (185) |
| <u>(247,277)</u> | | <u>(210,369)</u> |
| 10,366 | Net cash flow from capital activities | 21,290 |
| <u>(36,164)</u> | Net cash inflow/outflow before financing | <u>(2,768)</u> |
| | Financing activities | |
| | Cash inflows | |
| 0 | Cash receipts of long-term borrowing | 0 |
| (30,000) | Cash receipts of short-term borrowing | (41,000) |
| (30,000) | | (41,000) |
| | Cash outflows | |
| 0 | Repayments of long-term borrowing | 0 |
| 32,949 | Repayments of short-term borrowing | 38,156 |
| <u>32,949</u> | | <u>38,156</u> |
| | Other payments/receipts re financing activities: | |
| 288 | Council Tax receipts paid to major preceptors less receipts | 1,056 |
| <u>31,278</u> | NDR receipts under/over paid to the government * | <u>5,829</u> |
| <u>31,566</u> | | <u>6,885</u> |
| 34,515 | Financing net cash flow | 4,041 |
| <u>(1,649)</u> | Net increase(-)/decrease in cash equivalents | <u>1,272</u> |
| 941 | Cash and cash equivalents at 1 April (excl accruals) | (708) |
| (708) | Cash and cash equivalents at 31 March (excl accruals) | 565 |

*Reflects the difference in the NNDR schemes between 2018/19 and 2019/20.

1. Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and the Service Reporting Code of Practice 2019/20, supported by International Financial Reporting Standards (IFRS).

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

1.1.1 Qualitative Characteristics of Financial Information

Relevance - in accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) the objective of the principal statements is to provide information on the Council's financial performance that is useful for assessing the stewardship of public funds and for making economic decisions.

Reliability - the financial information can be depended upon to represent accurately the substance of the transactions that have taken place. The Accounts are unbiased, free from material error, have been prepared in a prudent manner and have included all issues that would assist users to make adequate decisions on the Council's financial standing.

Comparability - the Accounts contain comparative information about the Council so that performance may be compared with a prior period.

Understandability - although a reasonable knowledge of accounting and local government is required, all efforts have been made in the preparation of the financial statements to ensure that they are as easy to understand as possible.

Materiality - an item of information is material to the Accounts if its misstatement or omission might reasonably be expected to influence assessments of the Council's stewardship and economic decisions.

1.1.2 Accounting Concepts

Going concern – it is assumed that the Council will continue in operational existence for the foreseeable future and accordingly the Accounts have been prepared on a going concern basis.

Accruals - the financial statements, other than the Cash Flow Statement, have been prepared on an accruals basis. The accruals basis requires the non-cash effects of transactions to be reflected in the financial statements for the accounting period in which those effects are experienced and not in the period in which any cash is received or paid.

Primacy of legislation - local authorities derive their power from statute and their financial and accounting framework is closely controlled by legislation. Where there is conflict between a legal requirement and an accounting standard, the legal requirement will take precedence.

1.2 Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet.

An exception to this principle relates to electricity and similar utility costs. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Council Tax and National Non-Domestic Rates

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

Billing authorities are required by statute to maintain a separate fund (ie the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities and major preceptors share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

The amounts shown as council tax/business rates in the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement (CIES) represent the amounts due to this Council for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

Other material revenue streams

The Council has a number of other material revenue streams and the approach to recognition is on an accruals basis as set out above with the following exceptions:

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

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

1.3 Cash and Cash Equivalents

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

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

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

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

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

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

1.5 Contingent Liabilities

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

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

1.6 Charges to Revenue for Non-current Assets

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

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible assets attributable to the service.

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

1.7 Employee Benefits

1.7.1 Benefits payable during employment

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

1.7.2 Termination Benefits

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

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

1.7.3 Post-employment Benefits (Pension Costs)

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

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

The liabilities of the Kent pension fund attributable to the 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 projected earnings for current employees.

Liabilities are discounted to their value at current prices using a discount rate of 2.35% (based on the indicative rate of return on the Merrill Lynch AA rated corporate bond).

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

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

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

i) Service cost comprising:

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

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

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

iii) Re-measurement comprising

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

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

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

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

1.7.4 Discretionary Benefit

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

1.8 Events after the Reporting Period

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

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

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

1.9 Exceptional Items

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

1.10 Financial Instruments

1.10.1 Financial Liabilities

Financial Liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest

rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

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

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

1.10.2 Financial Assets (Investments)

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. Financial assets are classified into three types:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (ie where the cash flows do not take the form of a debt instrument).

Financial Assets Measured at Amortised Cost

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

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

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors).

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses. If it is determined that no objective evidence of impairment exists for an individually assessed debtor balance, the debtor balance shall be included in a group of debtor balances that are individually assessed for impairment.

Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

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

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

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

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

1.11 Government Grants and Contributions

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

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

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

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

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

1.12 Intangible Assets

Expenditure on assets that do not have physical substance, but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected to bring future economic benefits or service potential will flow from the intangible asset to the Council.

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

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation is not permitted to have an impact on the General Fund Balance. The costs are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment account.

1.13 Interests in Companies and Other Entities

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

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

1.14 Inventories

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

1.15 Investment Property

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

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

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

1.16 Leases

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

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

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

1.16.1 The Council as Lessee

i) Finance Leases

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

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

ii) Operating Leases

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

1.16.2 The Council as Lessor

i) Finance Leases

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

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

ii) Operating leases

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

1.16.3 Embedded Leases

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

1.17 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service where the total cost needs to be reflected at service level. In those cases the total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received.

1.18 Property, Plant and Equipment

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

1.18.1 Recognition

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

1.18.2 Measurement

Assets are initially measured at cost, comprising:

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

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

- community assets, infrastructure and assets under construction – depreciated historical cost or historical cost. If historical cost information is not available current cost discounted back to date of acquisition, using retail price index.
- council dwellings – existing use value, determined using the basis of existing use value for social housing (EUV-SH)
- assets held for sale - fair value, determined as the amount that would be paid for the asset in its highest and best use (existing use value – EUV).
- all other assets – existing use value where there is sufficient evidence of transactions for that use, or depreciated replacement cost (DRC) is used as an estimate of current value for assets of a specialist nature.

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

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

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

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

1.18.3 Impairment

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

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

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

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

1.18.4 Depreciation

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

Depreciation is calculated on the following bases:

- dwellings, infrastructure and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer (as long as the amount involved is material).

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

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

1.18.5 Disposals and Non-current Assets Held for Sale

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

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

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

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

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

1.18.6 Heritage Assets

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

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

1.19 Provisions

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

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

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

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

1.20 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement, so that there is no net charge against council tax for the expenditure.

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

1.21 Revenue Expenditure Funded from Capital under Statute

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

1.22 VAT

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

1.23 Fair Value Measurement

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

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

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

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

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

International Accounting Standard 8 requires the Council to disclose the expected impact of new standards that have been issued, but not yet adopted.

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

None of the above standards, when adopted, are expected to have a material impact on the Council's financial statements.

- IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government until April 2021.

3 Critical Judgements in applying Accounting Policies

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

- a) The Council has a 25% interest in East Kent Housing Limited (EKH), which has been classified as a joint venture with three other local authorities. With due regard to both the quantitative and qualitative aspects of materiality the Council has concluded that the preparation of group accounts is not required.

The Council has entered into an agreement with EKH that if the company is not able to make payments to the Kent Local Government Pension Fund in respect of the pensionable service of employees then the Council will meet its share of such payments. EKH's pension liability has increased from £9.5m to £9.9m at 31 March 2020. The company remains able to meet its current pension obligations and will not be making calls on the four owner Councils towards its pension liability. The Council's share of this liability is £2.5m but it has been concluded that the financial risk associated with the liability crystallising is immaterial and on this basis the liability has not be accounted for at fair value through profit and loss.

In any event, the deficit calculated for the purposes of preparing the ALMO's year end accounts is not one and the same as the actual liability if the four councils were required to take on the ALMO's pension liabilities. The services that EKH provides to the four councils are due to be transferred back to those bodies on 1 October 2020 and the actual pension liability will be assessed as part of that transfer.

Details of the related party transactions are provided within this document.

- b) There remains a high degree of uncertainty about future levels of funding for local government and the economic challenges facing the Council, particularly as a result of Covid 19. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- c) The Council entered into major contracts in 2013/14 for waste collection, grounds maintenance and park and ride services. The Council has reviewed the use of the non-current assets used by the contractors in order to deliver the contracts to establish the type of lease arrangement that covers their use. The waste and grounds maintenance contract is judged to include a finance lease, therefore the assets and a long term creditor equal to the value of the assets are included on the balance sheet. The assets will be depreciated over the life of the contract and the long term creditor written down over the same period. The non-current assets used to deliver the park and ride contract have a useful life significantly greater than the duration of the contract and so no further accounting adjustments are required for this contract.
- d) The Council owns several properties that are classified as specialised as being a property that is rarely, if ever, sold in the market, except by way of a sale of the business or entity of which it is part, due to the uniqueness arising from its specialised nature and design, its configuration, size, location or otherwise. Property services value these non-current assets on a depreciated replacement cost basis as to value them on any other basis would be extremely difficult and would invariably lead to unrealistically low values.
- e) The UK has left the European Union and is currently in a transition period. This could have an impact on the Council's future financial position but at this stage is it not possible to assess what that impact might be, however it is not considered necessary to require any change to the financial position reported.
- f) During 2017/18 the Council purchased the remaining half interest in the Whitefriars shopping centre. Given that the Council now owns 100% of the centre for long term regeneration purposes, it has decided to classify the asset as a non-current property asset rather than as a financial instrument. This

better reflects the Council's intentions to retain this property for the long term for regeneration purposes.

- g) In February 2018, this Council, together with Dover and Thanet district councils, entered into a contract with Civica UK Ltd. As part of the contractual arrangements with Civica, the councils have agreed to a cap and collar arrangement whereby the councils meet annual pension costs above the cap value but receive the benefit if pension costs fall below the collar value. The councils have also jointly agreed to act as a guarantor to Civica to enable it to become an admitted body in the Kent Pension Fund. Staff were transferred to Civica on a 100% funded basis.

If EKH was unable to meet its obligations for pension payments, its services would be taken back in-house by the four partner authorities and any pension liability would be combined with each Council's pension liability.

In December 2018 the council transferred the operation of the Marlowe Theatre to the Marlowe Theatre Trust, and recently revised the partnership agreement with the council's leisure services delivery partner Active Life. There are similar arrangements in place with regard to the pension arrangement as Civica.

For the 2019/20 accounts therefore the Council has decided not to reflect these arrangements in its statement of accounts as it considers that the probability of the guarantee being realised is minimal and so the value of the potential transaction is insignificant.

- h) The Council has reviewed its income sources in view of the introduction of IFRS15 – Revenue from Contracts with Customers and considers that income received in exchange for services is accounted for in line with the standard as the majority of services are paid for at the time of receipt or are aligned with our financial reporting period. Income received outside of those parameters is deemed to be immaterial.
- i) An assessment is made of the potential liability of valuation appeals arising from amounts paid to the Council for business rates up to 31 March 2020. This provision is based on information received from the Valuation Office Agency, historical trends and information relating to specific cases where available. Further information on the uncertainties around the calculation of this provision is set out in Section 4 below.
- j) From March 2020 onwards the Covid 19 pandemic has had a profound impact on Council services and local residents and businesses. It is having a significant adverse impact on the Council's finances and its reserve balances. This is covered more in the narrative report. Specific issues affecting the financial statements for 2019/20 include:
- i) Greater uncertainty over the valuation of all types of property, plant and equipment. The impact of COVID-19 has been discussed with our valuers and therefore less certainty and a higher degree of caution should be attached to the valuations in these statements than would normally be the case. Further information is included in note 10 to the accounts.
 - ii) Pension fund assets and liabilities – the scheme has been assessed by Barnett Waddingham, an independent firm of actuaries. Further information relating to the pension scheme can be found in Note 28.
 - iii) Collectability of debt – it is prudent to establish a provision (impairment allowance) for non-payment of debt. Further details on the impairment allowance and the potential adverse impact of Covid 19 on debt collection can be found in Note 14.

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

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

The items in the Council's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if actual results differ from assumptions |
|--|--|---|
| Pensions Liability | <p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.</p> | <p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £3.6m.</p> <p>Changes to financial assumptions in 2019/20 have led to a increase in the net liability of £3.4m.</p> |
| Business Rate Appeals | <p>The Council has a significant number of outstanding appeals against the Valuation Office (VOA) rating list. These can take several years to be heard and the outcome is difficult to estimate. Historical data has been used as the best estimate on which to base the provision for the outcome of the appeals.</p> <p>Following the 2017 revaluation there now applies a Check Challenge Appeal process for ratepayers. Very little progress to date has been made in resolving appeals, meaning that additional provision is having to be made in each year.</p> | <p>If the outcome of appeals is a reduction in the rateable value above that which has been provided then the NNDR collection fund would incur the additional cost of the appeals and there would be an ongoing reduction in the NNDR yield.</p> |
| Valuation of property, plant and equipment (PPE) | <p>All valuations are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council's valuation team work closely with finance officers reporting directly to the chief financial officer on a regular basis regarding all valuation matters.</p> <p>The methodology used to value PPE is as set out in note 10.5 to the accounts.</p> <p>When the fair values of investment properties, surplus assets and assets held for sale cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using the following valuation techniques:</p> <ol style="list-style-type: none"> 1. For Level 2 inputs, quoted prices for similar assets or liabilities in active markets at the balance sheet date; 2. For level 3 inputs, valuations based on most recent valuations adjusted to current | <p>The Council uses a combination of indexation techniques, beacon valuations and discounted cash flow (DCF) models to measure the fair value of its Investment Properties, Surplus Assets and Assets Held for Sale under IFRS13 depending on which technique it considers most appropriate, and similarly to value its PPE.</p> <p>The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, occupancy levels, floor area, repairs backlogs, beacon classifications and others.</p> <p>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for these assets.</p> <p>The most significant single asset is the Council's 100% stake in the Whitefriars Shopping Centre. This is valued using Level 2 inputs. A one percent variation</p> |

| | | |
|--|---|---|
| | <p>valuation by the use of indexation and impairment review.</p> <p>Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible, judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. Changes in assumptions used could affect the fair value of the Council's assets and liabilities.</p> <p>Where Level 1 inputs are not available, the authority's internal RICS qualified valuers identify the most appropriate valuation techniques to determine fair value.</p> | would lead to a change in value of £1.07m |
| Bad debt provisions (impairment allowance) | <p>The Council has bad debt provisions of £4.219m for income relating to the HRA, benefit overpayments, council tax, NNDR and other general debtors. The provisions are based on previous history of collection rates based on aged debt analysis. However, future payment patterns could differ from historical trends.</p> | The actual level of bad debts could be better or worse than the provision, leading to a need to increase or reduce it. Collection rates are monitored closely to allow early identification of changes to trends in payment patterns. |

5 Events after the Reporting Period

The Statement of Accounts was authorised for issue by the Deputy Chief Executive on 30 June 2020. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

6 Adjustments between Accounting Basis and Funding Basis under Regulations

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

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

6.1 General Fund Balance

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

6.2 Housing Revenue Account Balance

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to

fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

6.3 Major Repairs Reserve

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

6.4 Capital Receipts Reserve

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

6.5 Capital Grants Unapplied

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

| Accounting and Funding basis adjustments 2019/20 | Usable Reserves | | | | | | | Movement in Unusable Reserves |
|---|----------------------|--------------------|-------------------------|----------------------|--------------------------|--------------------------|-------|-------------------------------|
| | General Fund Balance | Earmarked Reserves | Housing Revenue Account | Major Repair Reserve | Capital Receipts Reserve | Capital Grants Unapplied | | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| Adjustments primarily involving the Capital Adjustment Account | | | | | | | | |
| Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement | | | | | | | | |
| Charges for Depreciation and impairment of non-current assets | (7,264) | | (4,012) | | | | | 11,276 |
| Revaluation on Property, Plant & Equipment | (37,045) | | (10,199) | | | | | 47,244 |
| Movement in market value of investment property | 0 | | 0 | | | | | 0 |
| Capital grant and contributions applied | 513 | | 943 | | | | | (1,456) |
| Revenue Expenditure funded from Capital under Statute | (972) | | | | | | | 972 |
| Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES | (124) | | (1,722) | | | | | 1,846 |
| Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement | | | | | | | | |
| Statutory provision for the financing of capital investment | 6,942 | | | | | | | (6,942) |
| Capital expenditure charged against GF & HRA balances | 809 | | 4,959 | | | | | (5,767) |
| Adjustments primarily involving the Capital Grants Unapplied Account | | | | | | | | |
| Capital grants and contributions unapplied credited to CIES | (683) | | | | | | 683 | 0 |
| Capital grants and contributions unapplied | 270 | | | | | | (270) | 0 |
| Adjustments primarily involving the Capital Receipts Reserve (CRR) | | | | | | | | |
| Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES | 470 | | 3,393 | | (3,863) | | | 0 |
| Use of CRR to finance capital expenditure | | | | | 2,979 | | | (2,979) |
| Contribution from CRR to finance payments to the Government capital receipts pool | (539) | | | | 539 | | | 0 |
| Transfer from deferred CRR upon receipt of cash | | | | | | | | 0 |
| Repayments of soft loans and Hsg Act advances | | | | | | (74) | | 74 |
| Adjustments primarily involving the Major Repairs Reserve | | | | | | | | |
| Reversal of Major Repairs Allowance credited to the HRA | | | 4,012 | (4,012) | | | | 0 |
| Use of the Major Repairs Reserve to finance new capital expenditure | | | | | 4,012 | | | (4,012) |
| Voluntary transfer to Major Repairs Reserve | | | 0 | 0 | | | | 0 |
| Adjustments involving the Financial Instruments Adjustment Account | | | | | | | | |
| Amount by which finance costs charged to CIES are different from finance costs chargeable in year in accordance with statutory requirements | (190) | | 0 | | | | | 190 |
| Adjustments involving the Pension Reserve | | | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to CIES | (6,956) | | (48) | | | | | 7,004 |
| Employers contributions and direct payments to pensioners payable in year. | 3,951 | | 282 | | | | | (4,233) |
| Adjustments involving Collection Fund Adjustment Account | | | | | | | | |
| Amount by which council tax and NDR income adjustment included in CIES is different to the amount calculated for the year in accordance with statutory guidance | (268) | | | | | | | 268 |
| Adjustments involving Accumulated Absences Account | | | | | | | | |
| Amount by which officer remuneration charged to the CIES on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements | 0 | | 0 | | | | | 0 |
| Total Adjustments 2019/20 | (41,089) | 0 | (2,393) | 0 | (419) | 413 | | 43,487 |

| Accounting and Funding basis adjustments 2018/19 | Usable Reserves | | | | | | | Movement in Unusable Reserves |
|---|----------------------|--------------------|-------------------------|----------------------|--------------------------|--------------------------|----------------|-------------------------------|
| | General Fund Balance | Earmarked Reserves | Housing Revenue Account | Major Repair Reserve | Capital Receipts Reserve | Capital Grants Unapplied | | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| Adjustments primarily involving the Capital Adjustment Account | | | | | | | | |
| Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement | | | | | | | | |
| Charges for Depreciation and impairment of non-current assets | (7,228) | | (4,002) | | | | | 11,230 |
| Revaluation on Property, Plant & Equipment | (1,359) | | (19,753) | | | | | 21,113 |
| Movement in market value of investment property | (198) | | | | | | | 198 |
| Capital grant and contributions applied | 1,865 | | 170 | | | | | (2,035) |
| Revenue Expenditure funded from Capital under Statute | 0 | | | | | | | 0 |
| Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES | (143) | | (2,680) | | | | | 2,822 |
| Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement | | | | | | | | |
| Statutory provision for the financing of capital investment | 7,406 | | | | | | | (7,406) |
| Capital expenditure charged against GF & HRA balances | 3,582 | | 9,852 | | | | | (13,434) |
| Adjustments primarily involving the Capital Grants Unapplied Account | | | | | | | | |
| Capital grants and contributions unapplied credited to CIES | (585) | | | | | 585 | | 0 |
| Capital grants and contributions unapplied | 2,039 | | | | | (2,039) | | 0 |
| Adjustments primarily involving the Capital Receipts Reserve (CRR) | | | | | | | | |
| Transfer of sale proceeds credited as part of the gain/loss on disposal to the CIES | 797 | | 4,941 | | (5,737) | | | 0 |
| Use of CRR to finance capital expenditure | | | | | 11,927 | | | (11,927) |
| Contribution from CRR to finance payments to the Government capital receipts pool | (539) | | | | | 539 | | 0 |
| Transfer from deferred CRR upon receipt of cash | | | | | | 0 | | 0 |
| Repayments of soft loans and Hsg Act advances | | | | | | (78) | | 78 |
| Adjustments primarily involving the Major Repairs Reserve | | | | | | | | |
| Reversal of Major Repairs Allowance credited to the HRA | | | 4,002 | (4,002) | | | | 0 |
| Use of the Major Repairs Reserve to finance new capital expenditure | | | | | 8,896 | | | (8,896) |
| Voluntary transfer to Major Repairs Reserve | | | 4,894 | (4,894) | | | | 0 |
| Adjustments involving the Financial Instruments Adjustment Account | | | | | | | | |
| Amount by which finance costs charged to CIES are different from finance costs chargeable in year in accordance with statutory requirements | 42 | | (5) | | | | | (38) |
| Adjustments involving the Pension Reserve | | | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to CIES | (4,630) | | (26) | | | | | 4,656 |
| Employers contributions and direct payments to pensioners payable in year. | 4,255 | | 271 | | | | | (4,526) |
| Adjustments involving Collection Fund Adjustment Account | | | | | | | | |
| Amount by which council tax and NDR income adjustment included in CIES is different to the amount calculated for the year in accordance with statutory guidance | 308 | | | | | | | (308) |
| Adjustments involving Accumulated Absences Account | | | | | | | | |
| Amount by which officer remuneration charged to the CIES on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements | 31 | | | | | | | (31) |
| Total Adjustments 2017/18 | 5,643 | 0 | (2,335) | 0 | 6,651 | (1,454) | (8,505) | |

8 Expenditure and income analysed by nature

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

| | 2019/20 | | | | | | | | | | | | |
|---|----------------------|-----------------|---------------------------------|-----------------------|--------------------|--------------|---------------|--------------|---------------------|-------------------------|----------------------|--------------------|------------------|
| 2018/19 | Corporate Management | Development | Digital Transformation & Policy | Commissioned Services | Community Services | Finance Team | HR & Training | Legal Team | Revenues & Benefits | Housing Revenue Account | Net Cost of Services | Sources of Finance | Total |
| £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Expenditure | | | | | | | | | | | | | |
| 20,495 Employee benefits expenses | 1,477 | 3,790 | 682 | 3,803 | 7,145 | 1,117 | 88 | 652 | 0 | 191 | 18,946 | 1,803 | 20,750 |
| 48,485 Other service expenses | 805 | 1,857 | 1,071 | 16,493 | 3,938 | 202 | 275 | 46 | 2,558 | 14,255 | 41,500 | 3,319 | 44,819 |
| (877) Support service recharges | (1,169) | 172 | (144) | 210 | 130 | (264) | (15) | (566) | 0 | 679 | (968) | 0 | (967) |
| 42,941 Housing benefit payments | 0 | 0 | 0 | 0 | 1,696 | 0 | 0 | 0 | 36,128 | 0 | 37,824 | 31 | 37,855 |
| 35,527 Depreciation, amortisation, impairment | 3 | 40,685 | 452 | 3,961 | 1,149 | 0 | 0 | 0 | 0 | 14,270 | 60,520 | 0 | 60,520 |
| 3,808 Interest payments | 0 | 19 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 19 | 3,786 | 3,804 |
| 850 Precepts and levies | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 920 | 920 |
| 539 Payments to Housing Capital Receipts pool | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 539 | 539 |
| (2,915) Gain on the disposal of assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (2,017) | (2,017) |
| 148,854 Total Expenditure | 1,116 | 46,523 | 2,061 | 24,467 | 14,058 | 1,055 | 348 | 132 | 38,686 | 29,395 | 157,840 | 8,383 | 166,224 |
| Income | | | | | | | | | | | | | |
| (73,830) Fees, charges and other service income | (6) | (15,008) | (45) | (11,467) | (5,396) | (74) | (95) | (174) | (431) | (26,358) | (59,055) | (5,279) | (64,334) |
| (71) Interest and investment income | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (51) | (51) |
| (11,222) Income - council tax & non-domestic rates | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (11,129) | (11,129) |
| (57,705) Government grants and contributions | (414) | (523) | (6) | (1,319) | (2,555) | (2) | (29) | 0 | (37,488) | (15) | (42,352) | (6,202) | (48,554) |
| (142,828) Total Income | (419) | (15,532) | (51) | (12,786) | (7,951) | (76) | (125) | (174) | (37,919) | (26,374) | (101,407) | (22,660) | (124,068) |
| 6,025 Surplus/Deficit on provision of services | 697 | 30,991 | 2,010 | 11,680 | 6,106 | 979 | 224 | (42) | 767 | 3,021 | 56,433 | (14,277) | 42,156 |

9 Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2019/20.

| Reserve | Note | Balance at | Transfers | Transfers | Balance at | Transfers | Transfers | Balance at |
|--|------|-----------------|----------------|-----------------|------------------|----------------|-----------------|------------------|
| | | 1 April 2018 | to reserve | from reserve | 31 March 2019 | to reserve | from reserve | 31 March 2020 |
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Computer/equipment | a | (559) | (46) | 219 | (385) | (46) | 197 | (234) |
| Buildings maintenance | b | (922) | (117) | 182 | (857) | (11) | 0 | (868) |
| Commercial property stabilisation reserve | c | (2,005) | (601) | 0 | (2,606) | (150) | 66 | (2,690) |
| Restructure reserve | d | (495) | (295) | 432 | (359) | (85) | 369 | (75) |
| Open spaces maintenance | e | (832) | (14) | 1 | (844) | 0 | 22 | (822) |
| Budget stabilisation reserve | f | (848) | 0 | 150 | (698) | (1,204) | 150 | (1,752) |
| Carry forward reserve | g | (793) | (638) | 400 | (1,031) | (122) | 239 | (914) |
| Whitstable Harbour reserves | h | (1,342) | (196) | 107 | (1,432) | (223) | 337 | (1,317) |
| Waste reserve | i | (578) | 0 | 0 | (578) | 0 | 213 | (365) |
| NDR reserve | j | (4,368) | (5,509) | 5,685 | (4,192) | (4,998) | 2,887 | (6,303) |
| Capital reserve | k | 0 | (715) | 500 | (215) | (14) | 0 | (229) |
| Planning reserves | l | (792) | (319) | 40 | (1,071) | (54) | 413 | (712) |
| Climate change reserve | m | 0 | 0 | 0 | 0 | (500) | 0 | (500) |
| Other General Fund reserves | | (4,311) | (411) | 1,469 | (3,254) | (564) | 664 | (3,154) |
| Total of Reserves | | (17,845) | (8,861) | 9,185 | (17,521) | (7,970) | 5,557 | (19,934) |
| Net Transfer - General Fund | | | | | 324 | | | (2,413) |
| HRA Reserves (excl major repairs reserve) | | | | | | | | |
| Subsidence and other reserves | h1 | (1,013) | (277) | 300 | (991) | (2) | 10 | (983) |
| Total HRA Reserves | | (1,013) | (277) | 300 | (991) | (2) | 10 | (983) |
| Net Transfer - HRA | | | | | 23 | | | 8 |
| Total Reserves | | (18,858) | (9,138) | 9,485 | (18,512) | (7,972) | 5,567 | (20,917) |

Earmarked Reserves

- a) The computer/equipment reserve is held to finance ICT equipment which needs replacing.
- b) The Buildings maintenance reserve is used to finance major repairs to council buildings.
- c) The commercial property stabilisation reserve is used to smooth the commercial property income fluctuations across financial years.
- d) The restructure reserve is used to cover restructure costs.
- e) The open spaces maintenance reserve holds the balance from commuted payments from developers (under section 106 agreements) based on 20 years maintenance cost of spaces taken over by the Council. The balance for each development is transferred to revenue over 20 years.
- f) The budget stabilisation is in place to support the revenue budget over future years and to cover any impairment on investments.
- g) The carry forward reserve is used to carry forward approved allocations to the next financial year to fund specific items or projects.
- h) The Whitstable Harbour reserves hold any surpluses from the ring-fenced account to spend on the Harbour in future years including quay maintenance.
- i) The waste reserve is used to smooth grant funding received over the life of the current contract and to fund preparatory work in advance of the next contract period.
- j) The NDR reserve has been created to allocate grant funding received in the current year that is required to fund the NDR collection fund costs accounted for in future financial years.
- k) The capital reserve has been established to facilitate revenue contributions towards funding of the capital programme.
- l) The planning reserves are used to finance development management in the district and to finance the costs of local plan inquiries.
- m) The climate change reserve has been established to set aside money for dealing with a range of issues to help climate change.
- h1) The HRA reserves consist mainly of a subsidence reserve created to cover liabilities arising from subsidence of housing stock properties now that they are not covered within the Council's insurance policy.

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

Due to the Covid-19 situation, the reserves listed will be used as necessary to close the budget gap in 2020/21, with the allocation between specific reserves being decided once the actual budget position is known at the end of 2020/21.

10 Property plant and equipment, investment properties and intangible assets

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

| | Council Dwellings | Land and Buildings | Plant, Vehicles & Equipment | Infrastructure | Community Assets | Assets Under Construction | Total Tangible assets | Investment Properties | Heritage Assets | Intangible Assets | Total | Assets Held For Sale |
|---|-------------------|--------------------|-----------------------------|----------------|------------------|---------------------------|-----------------------|-----------------------|-----------------|-------------------|----------|----------------------|
| <u>Cost or Valuation</u> | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| At 1 April 2019 (b/fwd) | 323,515 | 347,534 | 19,690 | 43,376 | 1,491 | 8,696 | 744,302 | 4,348 | 12,858 | 431 | 761,938 | 350 |
| Additions | 10,801 | 1,321 | 1,576 | 404 | 0 | 10,697 | 24,799 | 0 | 0 | 266 | 25,065 | 0 |
| Disposals | (1,722) | 0 | (963) | 0 | 0 | 0 | (2,685) | 0 | 0 | (108) | (2,794) | (350) |
| Acc Dep'n w/o | 0 | (4,399) | 0 | 0 | (25) | 0 | (4,424) | 0 | (15) | 0 | (4,439) | 0 |
| Reclassifications/Transfers | 2,203 | (3,052) | 0 | 0 | 0 | 849 | 0 | 0 | 0 | 0 | 0 | 0 |
| Revaluations to Revaluation Reserve | (944) | (4,085) | 0 | 0 | 240 | 0 | (4,789) | 0 | (127) | 0 | (4,916) | 0 |
| Revaluations to CIES | (9,824) | (37,052) | 0 | 0 | 0 | (375) | (47,251) | 0 | 0 | 0 | (47,251) | 0 |
| Other movements in Cost or Valuation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| At 31 March 2020 | 324,029 | 300,267 | 20,303 | 43,780 | 1,706 | 19,866 | 709,952 | 4,348 | 12,715 | 589 | 727,603 | 0 |
| <u>Depreciation and impairment</u> | | | | | | | | | | | | |
| At 1 April 2019 (b/fwd) | (3,925) | (4,651) | (13,912) | (22,052) | (25) | 0 | (44,564) | 0 | (14) | (431) | (45,009) | 0 |
| Charge for 2019/20 | (3,936) | (4,898) | (1,588) | (812) | (1) | (26) | (11,261) | 0 | (15) | 0 | (11,276) | 0 |
| Disposals | 0 | 0 | 954 | 0 | 0 | 0 | 954 | 0 | 0 | 108 | 1,062 | 0 |
| Acc Dep'n w/o | 3,925 | 4,399 | 0 | 0 | 25 | 0 | 8,349 | 0 | 15 | 0 | 8,364 | 0 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Impairments to CIES | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| At 31 March 2020 | (3,936) | (5,149) | (14,546) | (22,863) | (1) | (26) | (46,522) | 0 | (14) | (323) | (46,859) | 0 |
| Net Book Value at 31 March 2020 | 320,094 | 295,117 | 5,757 | 20,917 | 1,705 | 19,840 | 663,430 | 4,348 | 12,701 | 266 | 680,744 | 0 |

10 Property plant and equipment, investment properties and intangible assets

| | Council Dwellings | Land and Buildings | Plant, Vehicles & Equipment | Infrastructure | Community Assets | Assets Under Construction | Total Tangible assets | Investment Properties | Heritage Assets | Intangible Assets | Total | Assets Held For Sale |
|---|-------------------|--------------------|-----------------------------|----------------|------------------|---------------------------|-----------------------|-----------------------|-----------------|-------------------|----------|----------------------|
| <u>Cost or Valuation</u> | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| At 1 April 2018 (b/fwd) | 319,752 | 344,197 | 18,129 | 41,625 | 1,491 | 1,100 | 726,295 | 4,545 | 12,746 | 441 | 744,028 | 0 |
| Additions | 5,587 | 1,042 | 2,092 | 1,752 | 0 | 21,044 | 31,517 | 0 | 5 | 0 | 31,522 | 0 |
| Disposals | (2,669) | (511) | (531) | 0 | 0 | 0 | (3,711) | 0 | 0 | (10) | (3,721) | 0 |
| Acc Dep'n w/o | 0 | (4,084) | 0 | 0 | 0 | 0 | (4,084) | 0 | 0 | 0 | (4,084) | 0 |
| Reclassifications/Transfers | 0 | (1,384) | 0 | 0 | 0 | 1,034 | (350) | 0 | 0 | 0 | (350) | 350 |
| Revaluations to Revaluation Reserve | 6,134 | 9,614 | 0 | 0 | 0 | 0 | 15,748 | 0 | 107 | 0 | 15,854 | 0 |
| Revaluations to CIES | (5,289) | (1,341) | 0 | 0 | 0 | (14,482) | (21,112) | (198) | 0 | 0 | (21,310) | 0 |
| Other movements in Cost or Valuation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| At 31 March 2019 | 323,515 | 347,534 | 19,690 | 43,377 | 1,491 | 8,696 | 744,303 | 4,348 | 12,858 | 431 | 761,939 | 350 |
| Depreciation and impairment | | | | | | | | | | | | |
| At 1 April 2018 (b/fwd) | (3,897) | (4,047) | (12,545) | (21,224) | (24) | 0 | (41,737) | 0 | 0 | (441) | (42,178) | 0 |
| Charge for 2018/19 | (3,925) | (4,688) | (1,774) | (828) | (1) | 0 | (11,216) | 0 | (14) | 0 | (11,230) | 0 |
| Disposals | 0 | 0 | 408 | 0 | 0 | 0 | 408 | 0 | 0 | 10 | 418 | 0 |
| Acc Dep'n w/o | 3,897 | 4,084 | 0 | 0 | 0 | 0 | 7,981 | 0 | 0 | 0 | 7,981 | 0 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Impairments to CIES | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| At 31 March 2019 | (3,925) | (4,651) | (13,912) | (22,052) | (25) | 0 | (44,564) | 0 | (14) | (431) | (45,009) | 0 |
| Net Book Value at 31 March 2019 | 319,590 | 342,883 | 5,778 | 21,325 | 1,466 | 8,696 | 699,738 | 4,348 | 12,843 | 0 | 716,929 | 350 |

10.1 Heritage Assets

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

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

Land and Buildings

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

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

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

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

Museum contents and other artefacts

The museums service is managed within the Commissioned Services service area, and a small team look after and preserve the exhibits.

The service operated two museums within the district during 2019/20. Independent groups have been established in Herne Bay and Whitstable to take on the management of the museums on the council's behalf.

The art in the museums were last valued in 2006 by Sotheby's for insurance purposes at £7,100,000. This is reviewed annually and the current valuation is £7,075,000. Other museum exhibits are valued for insurance purposes at £841,000 and various civic and public art commissions are valued at £670,000 giving an overall total of £9,627,000 which also includes Tower House and Van Dyck paintings, but excludes exhibitions on loan to the Council.

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

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

| At 31 March 2019 | | Asset | At 31 March 2020 | |
|------------------|----------------------|--------------------------------------|------------------|----------------------|
| £'000 | £'000 | | £'000 | £'000 |
| 841 | | Museum Exhibits | 841 | |
| <u>8,786</u> | | Public Art and Painting Collection | <u>8,786</u> | |
| | 9,627 | Museum contents and artefacts | | 9,627 |
| 972 | | Roman Site Butchery Lane | 972 | |
| 30 | | Canterbury Castle | 30 | |
| 161 | | Littlebourne Barn | 161 | |
| 489 | | Central Parade Clock Tower | 489 | |
| <u>1,565</u> | | The Westgate | <u>1,423</u> | |
| | 3,216 | Land and Buildings | | 3,074 |
| | <u>12,843</u> | Total | | <u>12,701</u> |

10.2 Assets held for sale

| 31 March 2019 | | Transfers | Assets sold | 31 March 2020 |
|---------------|------------------|-----------|--------------|---------------|
| £'000 | | £'000 | £'000 | £'000 |
| 350 | Other properties | 0 | (350) | 0 |
| <u>350</u> | | <u>0</u> | <u>(350)</u> | <u>0</u> |

10.3 Depreciation

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

- Operational buildings are depreciated unless the amount involved is not material.
- Newly acquired assets are depreciated from the date of acquisition although assets in the course of construction are where depreciated, are depreciated at historical cost.
- Depreciation is calculated using the straight-line method over the expected useful life of the asset. This is calculated for each asset on an individual basis as follows: infrastructure assets are depreciated over periods varying from 10 to 50 years, operational buildings over periods ranging from 20 to 100 years, and plant, vehicles and equipment are mainly depreciated over five years.

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

10.4 Capital Commitments

At 31 March 2020 the council has capital commitments of £20m for the completion of the construction of the Canterbury Riverside regeneration project.

10.5 Revaluations

The Council carries out a rolling programme of revaluations that ensures that all property, highways, infrastructure assets, plant and equipment required to be measured at current value is re-valued at least every five years. Investment properties, surplus properties and assets held for sale are re-valued every year, as are all assets with a capital value of over £400,000. Revaluations for 2019/20 were carried out internally with the exception of Whitefriars, which was valued by Knight Frank.

| Assets category | Date of last valuation | Basis of valuation | Valuer |
|--------------------------|-------------------------------|---------------------------|-----------------------------|
| Council dwellings | March 2019 | A | Peter Riley, FRICS |
| Other land and buildings | April 2018– March 2019 | B | Peter Riley, FRICS |
| Surplus assets | March 2019 | C | Peter Riley, FRICS |
| Investment properties | March 2019 | C | Peter Riley, FRICS |
| Infrastructure assets | March 2019 | B | Liam Woollorton, IEng, MICE |
| Assets held for sale | March 2019 | C | Peter Riley, FRICS |

Basis of valuation

- A Current Value - Existing Use Value – Social Housing reflects discounted value in accordance with MHCLG guidance to allow for the use of property as rented social housing
- B
- a) Current Value - Existing Use Value where there was sufficient evidence of transactions for that use, or
 - b) Depreciated replacement cost (DRC) where the asset is of a specialised nature or where there is no evidence of market value of suitably comparable properties
- C Current Value - Fair value for properties categorised as Assets Held for Sale, surplus or investment properties

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

The Fair Values of retail assets have been assessed using the investment method reflecting market conditions, sale prices and achieved rents for similar assets in the local authority area as at the valuation date. Market conditions are such that the level of observable inputs is significant leading to the property being categorised at Level 2 in the fair value hierarchy (see Note 4 for an explanation of the fair value levels).

Highest and Best Use of Investment Properties

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

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

Material Value Uncertainty due to COVID-19

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organization as a “Global Pandemic” on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date, less weight can be attached to previous market evidence for comparison purposes, to inform opinions of value. The current response to COVID-19 means that there is an unprecedented set of circumstances on which to base a judgement.

Valuations are therefore reported on the basis of ‘material valuation uncertainty’ as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to the valuations than would normally be the case.

11 Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. This effectively means that it has been covered by borrowing.

| 2018/19 | Capital Expenditure and Financing | 2019/20 |
|------------------------|---|------------------------|
| £'000 | | £'000 |
| 271,888 | Opening Capital Financing Requirement | 259,607 |
| | Capital Expenditure in year: | |
| 29,876 | Property, plant and equipment | 14,743 |
| 1,565 | Assets under construction | 10,322 |
| 81 | Embedded Lease addition | 0 |
| | Revenue expenditure funded from capital under statute | |
| <u>2,932</u> | see note 11.1 | <u>2,502</u> |
| 34,454 | | 27,566 |
| (4,849) | HRA loan repayment | (4,969) |
| | Sources of Finance | |
| (11,927) | Capital receipts | (2,979) |
| (106) | Loan repayments | (111) |
| (3,521) | Government grants and other contributions | (2,754) |
| (18,925) | Revenue and Reserves | (5,051) |
| (7,406) | Revenue and provision for repayment of loans (MRP) | (6,941) |
| <u>(41,886)</u> | | <u>(17,836)</u> |
| 259,607 | Closing Capital Financing Requirement | 264,368 |
| | Explanation of movements in year | |
| (4,849) | HRA loan repayment | (4,969) |
| (7,406) | MRP | (6,941) |
| (106) | Soft loan repayments | (111) |
| | Increase in underlying need to borrow (unsupported by | |
| 81 | government financial assistance). | 16,783 |
| <u>(12,281)</u> | Movement of Capital Financing Requirement | <u>4,761</u> |

11.1 Revenue Expenditure Funded from Capital Under Statute (REFCUS)

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

| 2018/19 | 2019/20 | | | Net Exp |
|----------------|----------------|-----------------------|---------------------|----------------|
| | Gross | Gov | Other | |
| Net Exp | Exp | Grant | Contr | Net Exp |
| £'000 | £'000 | £'000 | £'000 | £'000 |
| 0 | 1,108 | (1,097) | 0 | 10 |
| 0 | 1,394 | 0 | (432) | 962 |
| <u>0</u> | <u>2,502</u> | <u>(1,097)</u> | <u>(432)</u> | <u>972</u> |

The financing of this expenditure was, grants and contributions of £1,327k and reserve funding of £202k. Adding the £1,327k to the £1,427k non REFCUS grant funded capital expenditure reconciles to the total capital grants applied to finance capital expenditure £2,754k (see table above).

12. Financial Instruments

12.1 Categories of Financial Instruments

The following categories of financial instrument (and non-financial assets/liabilities) are disclosed on the face of the Balance Sheet as at 31 March.

| Financial Assets | Non-Current | | | | Current | | | | Total 31 March | Total 31 March |
|------------------------------------|-------------|----------|--------------|--------------|--------------|--------------|---------------|---------------|-------------------|-------------------|
| | Investments | | Debtors | | Investments | | Debtors | | | |
| | 31 March | 31 March | 31 March | 31 March | 31 March | 31 March | 31 March | 31 March | | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| Amortised cost | 0 | 0 | 475 | 420 | 0 | 0 | 6,467 | 10,591 | 6,942 | 11,011 |
| Fair Value through profit and loss | 0 | 0 | 0 | 0 | 9,332 | 5,268 | 0 | 0 | 9,332 | 5,268 |
| Cash and cash equivalents | 0 | 0 | 0 | 0 | 0 | 0 | 658 | 976 | 658 | 976 |
| Soft loans | 0 | 0 | 2,925 | 3,316 | 0 | 0 | 0 | 0 | 2,925 | 3,316 |
| Total financial assets | 0 | 0 | 3,399 | 3,736 | 9,332 | 5,268 | 7,125 | 11,567 | 19,856 | 20,572 |
| Non-financial assets | 0 | 0 | 2 | 2 | 0 | 0 | 3,712 | 1,715 | 3,713 | 1,717 |
| Total | 0 | 0 | 3,401 | 3,739 | 9,332 | 5,268 | 10,837 | 13,282 | 23,569 | 22,290 |

Financial Liabilities

| Financial Liabilities | Non-Current | | | | Current | | | | Total 31 March | Total 31 March |
|------------------------------------|------------------|------------------|-----------|----------|-----------------|-----------------|-----------------|-----------------|-------------------|-------------------|
| | Borrowings | | Creditors | | Borrowings | | Creditors | | | |
| | 31 March | 31 March | 31 March | 31 March | 31 March | 31 March | 31 March | 31 March | | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| Amortised cost | (168,473) | (178,833) | 0 | 0 | (49,410) | (38,255) | (13,999) | (11,915) | (231,882) | (229,003) |
| Total financial liabilities | (168,473) | (178,833) | 0 | 0 | (49,410) | (38,255) | (13,999) | (11,915) | (231,882) | (229,003) |
| Non-financial liabilities | 0 | 0 | 0 | 0 | 0 | 0 | (5,003) | (6,849) | (5,003) | (6,849) |
| Total | (168,473) | (178,833) | 0 | 0 | (49,410) | (38,255) | (19,002) | (18,764) | (236,885) | (235,852) |

12.2 Material Soft Loan made by the Council

Loan to Kent County Cricket Club (KCCC)

Soft loans includes a loan to the KCCC (towards the implementation of its development plans) which is deemed to be material. A soft loan is one where the advance has been made at less than market rates. Within the balance of soft loans of £2.9m shown in the table at 12.1 above, is an amount of £2.6m in respect of the KCCC.

| | 2018/19 | 2019/20 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Balance at start of year: | | |
| Opening balance | 2,998 | 2,920 |
| Loans repaid | (106) | (111) |
| Increase/(decrease) in discounted amount | 28 | (184) |
| Impairment losses | 0 | 0 |
| Closing balance at end of year | <u>2,920</u> | <u>2,625</u> |

The interest rate at which the fair value of this soft loan has been made is arrived at by adding 1% to the actual cost of borrowing to reflect the credit risk.

12.3 Income, Expense, Gains and Losses

The income, expense, gains and losses recognised in the Comprehensive Income and Expenditure Statement (as part of Surplus/Deficit on the Provision of Services) in relation to financial instruments are made up as follows:

| | 2018/19 | 2019/20 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Net gains/losses on: | | |
| Financial assets measured at fair value through profit and loss | (172) | (97) |
| Financial assets measured at amortised cost | 414 | 545 |
| Total net gains/losses | <u>242</u> | <u>448</u> |
| Interest revenue: | | |
| Financial assets measured at amortised cost | <u>(162)</u> | <u>(141)</u> |
| Interest expense | <u>5,673</u> | <u>5,487</u> |

12.4 Fair Values of Financial Assets and Liabilities

The Council's financial liabilities and financial assets are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the Net Present Value of the cash flows that will take place over the remaining term of the instruments, which provides an estimate of the value of payments in the future in today's terms. This is the widely accepted valuation technique commonly used by the private sector. The following assumptions have been used:

- i) For PWLB loans, the new borrowing rate has been used as the discount factor (as opposed to the premature repayment rate). This is because the premature repayment rate includes a margin which represents the lender's profit as a result of rescheduling the loan, which is not included in the fair value calculation. Relevant interest rates at 31 March 2020 were between 2.10% and 2.85% depending on the maturity date of the loan.
- ii) No early repayment or impairment is recognised.
- iii) For investments, the discount rate used in the Net Present Value calculation should be equal to the current rate in relation to the same instrument from a comparable lender. This will be the rate applicable in the market on the date of the valuation for an instrument with the same outstanding period to maturity.

The fair values calculated by Arlingclose our treasury advisors:

| 31 March 2019 | | | 31 March 2020 | |
|-----------------------------|-------------------|---|------------------------|-------------------|
| Carrying Amount | Fair Value | | Carrying Amount | Fair Value |
| £'000 | £'000 | | £'000 | £'000 |
| Long term borrowing | | | | |
| 176,831 | 202,175 | Financial Liabilities PWLB loans | 168,471 | 192,841 |
| 2,002 | 2,036 | Financial Liabilities - Other bonds and mortgages | 2 | 0 |
| Short term borrowing | | | | |
| 38,255 | 37,895 | Financial Liabilities - temporary loans | 49,410 | 49,066 |

The fair value is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the balance sheet date including three old loans totalling £2.5m with rates of 7.625%, 10.25% and 10.5% which account for a fair value of £3,582k higher than the carrying amount. Further, the commitment to pay interest above current market rates on the other loans increases the amount that the Council would have to pay if the lender requested or agreed to early repayments of the loans.

| 31 March 2019 | | | 31 March 2020 | |
|------------------------|-------------------|---|------------------------|-------------------|
| Carrying Amount | Fair Value | | Carrying Amount | Fair Value |
| £'000 | £'000 | | £'000 | £'000 |
| Investments | | | | |
| 0 | 0 | Loans and receivables - banks and building societies | 0 | 0 |
| 5,268 | 5,268 | Fair value through profit and loss - money market funds | 9,332 | 9,332 |
| 5,268 | 5,268 | | 9,332 | 9,332 |

The value of money market funds are made at "mark to market" meaning that the value of the funds are constantly measured at their fair value. The Council's carrying amount in the accounts is kept up to date resulting in them being equal to the fair value.

Financial assets and liabilities additionally include cash, bank overnight deposits and some debtors and creditors as set out in the table (above) in note 12.1. The fair value of these is equivalent to the nominal value as they are short term liquid assets.

12.5 Nature and extent of risks arising from financial instruments

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

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

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

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure to the authority's customers. Deposits are only made with banks and financial institutions if they are rated with a minimum score of F1. The Treasury Management Strategy sets out the lending limits to any single counter party, these are based on the assessed risks and vary between £1 million and £10 million. The strategy for 2019/20 was agreed by Council on 14 February 2019 and is available on the Council's website.

Liquidity risk

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

The Council has ready access to borrowings from the money markets to cover any day to day cash flow needed (although this facility is rarely used), and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

All investment sums owing to the Council (£9.3m) can be repaid on demand if required. The long term debts are due for repayment in accordance with the loan agreements.

Refinancing and Maturity Risk

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

However £81.4m of loans have a maturity of more than 10 years and the strategy is now to spread the maturity profile of the borrowings and to make early repayments where it is beneficial to do so.

The maturity analysis of financial liabilities is as follows:

| 31 March 2019 | Source of Loan | Range of interest rates payable | 31 March 2020 |
|------------------|-----------------------------------|---------------------------------------|------------------|
| £'000 | | % | £'000 |
| 176,831 | Public Works Loan Board | 2.00 - 10.50 | 168,471 |
| 2,002 | Other bonds and mortgages | 2.00 - 5.625 | 2 |
| 178,833 | Total Long term borrowing | | 168,473 |
| | Analysis of loans by maturity is: | | |
| 8,871 | Maturing in 1-2 years | | 8,574 |
| 28,458 | Maturing in 2-5 years | | 27,060 |
| 48,537 | Maturing in 5-10 years | | 51,374 |
| 92,967 | Maturing in over 10 years | | 81,465 |
| 178,833 | Total Long term borrowing | | 168,473 |

Market Risk

Interest rate risk

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

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

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

Investments or borrowings at variable interest rates are potentially most affected by interest rate risk; this Council invests in money market funds which are subject to movements in interest rates. For a 1% increase in rates additional income of £93k would be generated. A 1% reduction would have the opposite effect.

General Fund Borrowing

Of the £83.5m Council borrowing in excess of 10 years, £74.6m is General Fund.

Financial Instruments Designated at Fair Value through Profit or Loss (FVPL)

The Council held £9.3m in money market funds at 31 March 2020 designated as FVPL. The risk to the value of the funds is managed as described above. Fair value hierarchy of Level 1 is applied, that is, the value is derived from quoted prices in active markets for identical assets. The impact of a 1% interest rate rise would lead to an estimated reduction in fair value of £13k.

13 Long term debtors

| Balance at 1 April 2019 £'000 | Category | Advances £'000 | Repayments £'000 | Write-Offs £'000 | Balance at 31 March 2020 £'000 |
|-------------------------------------|--------------------------------|-------------------|---------------------|---------------------|--------------------------------------|
| Soft loans (Misc loans) | | | | | |
| 3,359 | Actual amount outstanding | 0 | (185) | 0 | 3,174 |
| (42) | Adjustments to fair value | 0 | (207) | 0 | (249) |
| 3,317 | Soft loans - Fair value | 0 | (392) | 0 | 2,925 |
| 2 | Housing Act Advances | 0 | 0 | 0 | 2 |
| 278 | East Kent Housing loan | 0 | 0 | 0 | 278 |
| 142 | Shared Service Reserves | 55 | 0 | 0 | 197 |
| 3,739 | Total | 55 | (392) | 0 | 3,401 |

The balance for soft loans at 31 March 2019 of £3.174m has been reduced downwards by £249k (contra the Financial Instruments adjustment account) to a 'fair value' of £2.925m using a discounted cash flow calculation, to reflect the interest charged is below market rates or where interest is at the market rate a credit default risk of 1% has been used.

14 Short term debtors

| 31 March 2019 £'000 | Category | 31 March 2020 £'000 |
|---------------------------|--|------------------------|
| 11,108 | Other entities and individuals | 10,748 |
| 2,214 | Central government bodies | 2,329 |
| 2,554 | Other local authorities | 1,297 |
| 57 | Public corps and trading funds | 33 |
| 15,933 | Total | 14,408 |
| Impairment of debt | | |
| (609) | Local tax payers | (754) |
| (787) | Housing | (989) |
| (1,771) | Benefits | (1,802) |
| (459) | Penalty charges notices & other provisions | (673) |
| (3,627) | Total | (4,219) |
| 12,306 | Total short term debtors | 10,189 |

14.1 Age of Debt

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

| 31 March 2019 | | | 31 March 2020 | | | |
|------------------|--------------|----------------|----------------|------------------|--------------|----------------|
| General £'000 | HRA £'000 | Total £'000 | Age of Debt | General £'000 | HRA £'000 | Total £'000 |
| 1,827 | 14 | 1,841 | 0 to 30 days | 1,714 | 478 | 2,192 |
| 17 | 1 | 18 | 31 to 60 days | 7 | 4 | 11 |
| 172 | 3 | 175 | 61 to 90 days | 92 | 20 | 112 |
| 67 | 8 | 74 | 91 to 120 days | 270 | 11 | 281 |
| 234 | 134 | 368 | Over 120 days | 337 | 146 | 483 |
| 2,317 | 159 | 2,476 | Total | 2,420 | 658 | 3,079 |

14.2 Collectability of debt

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

15 Cash and cash equivalents

Cash is defined as cash in hand and deposits repayable on demand, less overdrafts. The balance of cash and cash equivalents is made up of the following elements:

| 31 March 2019 | | 31 March 2020 |
|----------------------|---------------------------|----------------------|
| £'000 | | £'000 |
| | 4 Bank overnight deposits | 182 |
| <u>972</u> | Cash in hand | <u>476</u> |
| 976 | | 658 |
| <u>(268)</u> | Payments in transit | <u>(1,223)</u> |
| <u>708</u> | | <u>(565)</u> |

16 Creditors

| 31 March 2019 | Category | 31 March 2020 |
|------------------------|--------------------------------|------------------------|
| £'000 | Sundry creditors | £'000 |
| <u>(9,002)</u> | Other entities and individuals | <u>(10,754)</u> |
| <u>(1,604)</u> | Central government bodies | <u>(718)</u> |
| <u>(8,089)</u> | Other local authorities | <u>(7,512)</u> |
| <u>(69)</u> | Public corps and trading funds | <u>(19)</u> |
| <u>(18,764)</u> | Total | <u>(19,002)</u> |

16.1 Deposits and Receipts in Advance

The balance for deposits and receipts in advance of £5,627k is predominantly made up of various government grants. (In 2018/19 the total was £2,377k which was predominantly made up of various government grants).

17 Usable Reserves

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

18 Unusable Reserves

| Reserve | Balance at 1 April 2019 £'000 | Net movement in year £'000 | Balance 31 March 2020 £'000 | Purpose of reserve |
|--|--|-------------------------------------|--------------------------------------|---|
| Revaluation Reserve | (230,880) | 1,894 | (228,986) | Store of gains on revaluation of fixed assets, not yet realised through sales see note 18.1 for details |
| Capital Adjustment Account | (232,930) | 39,597 | (193,333) | Store of capital resources set aside to meet past expenditure see note 18.2 for details |
| Financial Instrument Adjustment Account | 371 | 190 | 561 | Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowing and investments. |
| Pensions Reserve | 75,872 | 3,431 | 79,303 | Balancing account to allow inclusion of Pensions Liability in the Balance Sheet. See note 18.3 for details |
| Collection Fund Adjustment Account | (441) | 268 | (173) | Resources available to meet future precept payments re City Council share only |
| Short-term accumulating absences account | 170 | 0 | 170 | Represents accrual of holiday entitlement carried forward at year end |
| Total | (387,838) | 45,380 | (342,458) | |

18.1 Revaluation Reserve

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

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

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

| 31 March 2019 £'000 | Category | General Fund £'000 | Housing £'000 | 31 March 2020 £'000 |
|---------------------------|--|--------------------------|------------------|---------------------------|
| (212,100) | Balance at 1 April | (66,494) | (164,386) | (230,880) |
| (17,937) | Upward revaluation of assets | (8,405) | (362) | (8,767) |
| 2,083 | Downward revaluation of assets and impairment losses not charged to Surplus/Deficit on provision of services | 12,580 | 1,103 | 13,683 |
| (15,854) | | 4,175 | 741 | 4,916 |
| (3,897) | Depreciation written out on revaluations of PPE (Surplus)/deficit on revaluation of assets not posted to the surplus or deficit on the provision of services per CIES. | | (3,925) | (3,925) |
| (19,751) | Transfers to Capital Adjustment Account (note 18.2) | 4,175 | (3,184) | 991 |
| 409 | Write-out the revaluation gains previously recognised for assets disposed of in current year. | 242 | 0 | 242 |
| (19,342) | (Surplus)/deficit on revaluation of PPE | 4,417 | (3,184) | 1,233 |
| 562 | Difference between fair value depreciation and historical cost depreciation following revaluations | 661 | 0 | 661 |
| (18,780) | Total movement in reserve in the year | 5,078 | (3,184) | 1,894 |
| (230,880) | Balance at 31 March | (61,416) | (167,569) | (228,985) |

18.2 Capital Adjustment Account

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

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

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

| 2018/19 Capital Adjustment Account Total £'000 | General Fund £'000 | Housing £'000 | 2019/20 Total £'000 |
|--|--------------------------|------------------|---------------------------|
| Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement | | | |
| Charges for depreciation and impairment | | | |
| (224,111) Balance at 1 April | (146,916) | (86,014) | (232,930) |
| 11,230 Charges for depreciation and impairment of non-current assets | 7,264 | 4,012 | 11,276 |
| 21,113 Revaluation of Property, Plant and Equipment | 37,045 | 10,199 | 47,244 |
| 0 Revenue expenditure funded from capital under statute | 972 | 0 | 972 |
| Amounts of non-current assets written off on disposal/sale as part of gain/loss on disposal to CIES | 124 | 1,722 | 1,846 |
| 2,822 | 45,406 | 15,933 | 61,339 |
| 35,165 | (661) | (661) | (661) |
| (562) Adjusting amounts written out to Revaluation Reserve | (661) | (661) | (661) |
| Net written out amount of the cost of non-current assets consumed in the year. | 44,745 | 15,933 | 60,677 |
| 34,604 | 44,745 | 15,933 | 60,677 |
| Capital financing applied in the year | | | |
| (11,927) Use of the Capital Receipts Reserve to finance new capital expenditure | (544) | (2,435) | (2,979) |
| (8,896) Use of the Major Repairs Reserve to finance new capital expenditure | (8,896) | (4,012) | (4,012) |
| (2,035) Capital grants and contributions credited to the CIES that have been applied to capital financing | (513) | (943) | (1,456) |
| (7,406) Statutory provision for the financing of capital charged to the General Fund and HRA balances | (6,942) | (6,942) | (6,942) |
| (8,582) Capital expenditure charged against the General Fund and HRA balances | (809) | (809) | (809) |
| (38,847) | (8,807) | (7,389) | (16,196) |
| Movement in the year | | | |
| 198 Movement in the market value of Investment Properties debited or credited to the Comp Income and Exp Stmt | 0 | 0 | 0 |
| (4,852) HRA loan repayment | 0 | (4,959) | (4,959) |
| 78 Repayments of soft loans and housing act advances | 74 | 0 | 74 |
| (232,930) Balance at 31 March | (110,904) | (82,430) | (193,333) |

18.3 Pensions Reserve

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

| 2018/19 £'000 | 2019/20 £'000 |
|--|----------------------|
| 85,386 Balance at 1 April | 75,872 |
| (9,644) Remeasurements of the net defined benefit liability | 660 |
| Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the | |
| 4,656 Comprehensive I&E Statement | 7,004 |
| Employer's pension contributions and direct payments to | |
| <u>(4,526)</u> pensioners payable in the year | <u>(4,233)</u> |
| <u>75,872</u> Balance at 31 March | <u>79,303</u> |

19 Cash flow statement – operating activities and reconciliation of liabilities arising from financing

19.1 The cash flows for operating activities include the following items:

| 2018/19 £'000 | 2019/20 £'000 |
|---|---------------------|
| 5,625 Interest paid | 5,534 |
| <u>(335)</u> Investment income received | <u>(236)</u> |
| <u>5,290</u> Total | <u>5,298</u> |

Full details of investing and financing activities are included in the main cash flow statement itself.

19.2 Reconciliation of liabilities arising from financing activities

| Balance at 1 April 2019 | Liability | Financing cash flows | Non cash changes | | Balance at 31 March 2020 |
|----------------------------|-------------------------------|-------------------------|----------------------|-------------------------|-----------------------------|
| £'000 | | £'000 | Acquisition £'000 | Other non cash £'000 | £'000 |
| (178,833) | Long term borrowings | 8,223 | 0 | 2,142 | (168,469) |
| (38,255) | Short term borrowings | (9,000) | 0 | (2,154) | (49,410) |
| (787) | Lease liabilities | 0 | 0 | 363 | (424) |
| | Total liabilities from | | | | |
| (217,875) | financing activities | (777) | 0 | 350 | (218,302) |

20 Grant Income

The Council credited the following grants and contributions to the comprehensive income and expenditure statement within taxation and non-specific grant income section.

| 2018/19 | Taxation and non-specific grant Income | 2019/20 |
|--|---|----------------|
| £'000 | a) General government grants | £'000 |
| (9,048) | Non-domestic rates income and expenditure | (6,011) |
| (1,057) | New homes bonus | (1,767) |
| (10,105) | Total of general government grants | (7,778) |
| b) Recognised capital grants and contributions | | |
| (3,489) | Grants and contributions | (1,043) |
| (3,489) | Total of recognised capital grants and contributions | (1,043) |

The Council credited the following grants and contributions to cost of services within the comprehensive income and expenditure statement.

| 2018/19 | Credited to Services | 2019/20 |
|--|---|-----------------|
| £'000 | a) 'True' revenue grants | £'000 |
| (27,287) | Rent allowances | (22,416) |
| (14,535) | Rent rebates | (13,432) |
| (562) | Benefits administration | (516) |
| (229) | NDR administration | (234) |
| (861) | Other revenue grants | (2,356) |
| (43,475) | | (38,954) |
| b) Grants re Revenue expenditure funded by grants under Statute (REFCUS) | | |
| (1,164) | Housing specified grant for disabled facilities | (1,097) |
| (44,640) | Total to general government grants | (40,051) |

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

21 External Audit Costs

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

| 2018/19 | | 2019/20 |
|-----------|--|-----------|
| £'000 | | £'000 |
| 42 | External audit services carried out by the appointed auditor | 48 |
| 0 | Rebate from PSAA | (5) |
| 20 | Certification of grant claims and returns | 30 |
| 62 | Total | 73 |

22 Councillors' Allowances

The total of councillors' allowances paid in the year was £308,017 (2018/19 - £304,605).

Details can be found on our website:

https://www.canterbury.gov.uk/downloads/download/194/councillor_allowances

23 Officers' Emoluments

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

| Number of employees 2018/19 | Remuneration band | Number of employees 2019/20 |
|--------------------------------|---------------------|--------------------------------|
| 10 | £50,000 - £54,999 | 12 |
| 6 | £55,000 - £59,999 | 7 |
| 4 | £60,000 - £64,999 | 6 |
| 7 | £65,000 - £69,999 | 6 |
| 2 | £70,000 - £74,999 | 3 |
| 2 | £75,000 - £79,999 | 1 |
| 1 | £80,000 - £84,999 | 0 |
| 2 | £85,000 - £89,999 | 2 |
| 0 | £90,000 - £94,999 | 1 |
| 0 | £95,000 - £99,999 | 0 |
| 1 | £100,000 - £104,999 | 1 |
| 0 | £105,000 - £109,999 | 0 |
| 0 | £110,000 - £114,999 | 0 |
| 1 | £115,000 - £119,999 | 1 |
| 0 | £150,000 - £154,999 | 0 |
| 1 | £160,000 - £164,999 | 0 |
| 37 | Total | 40 |

23.1 Senior Officers' Emoluments

This note reports the details of officers with statutory responsibilities and those reporting direct to the Chief Executive or part of Senior Management Team. The lowest full-time pay rate on the Council's salary scale is £17,364, therefore the test of the most senior salary not exceeding 20 times this rate is comfortably met.

| 2018/19 | | | 2019/20 | | |
|--|----------------------------------|------------|--|----------------------------------|----------------|
| Salaries fees & allowances £'000 | Pension Contribution £'000 | Total | Salaries fees & allowances £'000 | Pension Contribution £'000 | Total £'000 |
| Statutory Officers | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| 117 | 16 | 133 | 119 | 19 | 138 |
| 103 | 14 | 117 | 105 | 14 | 119 |
| 102 | 0 | 102 | 106 | 0 | 106 |
| Non Statutory Directors | | | | | |
| | | | | | |
| 80 | 10 | 90 | 87 | 12 | 99 |
| 94 | 12 | 106 | 0 | 0 | 0 |
| 90 | 12 | 102 | 91 | 12 | 103 |
| 82 | 11 | 93 | 87 | 12 | 98 |
| 668 | 75 | 743 | 596 | 68 | 664 |

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

24 Exit Packages and Termination Benefits

The Council terminated the contracts of a number of employees in 2019/20, incurring liabilities of £201,000 (£1,023,000 in 2018/19). The total in 2019/20 is in respect of 12 officers from various divisions within the Council who were made redundant as part of the councils ongoing rationalisation of services. Payments include all payments for redundancy, compromise agreements, pension costs incurred and pay-in-lieu of notice. The total cost of these exit packages is analysed in bands of £20,000 below:

| 2018/19 | | | Band | 2019/20 | | |
|--------------------|-----------------------|------------------|------------|--------------------|-----------------------|------------------|
| Number of Packages | Type of exit package | Total cost £'000 | | Number of Packages | Type of exit package | Total cost £'000 |
| 3 | Compulsory Redundancy | 38 | £0 - | 5 | Compulsory Redundancy | 29 |
| 4 | Other | 27 | £19,999 | 2 | Other | 32 |
| 2 | Compulsory Redundancy | 72 | £20,000 - | 5 | Compulsory Redundancy | 140 |
| 1 | Other | 20 | £39,999 | 0 | Other | 0 |
| 2 | Compulsory Redundancy | 102 | £40,000 - | 0 | Compulsory Redundancy | 0 |
| 0 | Other | 0 | £59,999 | 0 | Other | 0 |
| 2 | Compulsory Redundancy | 146 | £60,000 - | 0 | Compulsory Redundancy | 0 |
| 0 | Other | 0 | £79,999 | 0 | Other | 0 |
| 1 | Compulsory Redundancy | 89 | £80,000 - | 0 | Compulsory Redundancy | 0 |
| 0 | Other | 0 | £99,999 | 0 | Other | 0 |
| 1 | Compulsory Redundancy | 115 | £100,000 - | 0 | Compulsory Redundancy | 0 |
| 0 | Other | 0 | £119,999 | 0 | Other | 0 |
| 2 | Compulsory Redundancy | 263 | £120,000 - | 0 | Compulsory Redundancy | 0 |
| 0 | Other | 0 | £139,999 | 0 | Other | 0 |
| 1 | Compulsory Redundancy | 151 | £140,000 - | 0 | Compulsory Redundancy | 0 |
| 0 | Other | 0 | £159,999 | 0 | Other | 0 |
| 19 | | 1023 | | 12 | | 201 |

Accounting regulations require the council to include a provision in the accounts for redundancy costs that the council know they will incur in 2020/21. The amounts payable to officers after 31 March 2020 are excluded from the table above as it will be disclosed in 2020/21.

25 Related Party Transactions

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

Central Government

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

Councillors

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

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

East Kent Housing Limited

The council has a 25% share of East Kent Housing Ltd, an Arms Length Management Organisation. Payment of £3.32m was made in 2019/20 to East Kent Housing in respect of management fees (including charged back service income and consolidated items). The council received £192,000 from East Kent Housing in respect of service level agreements and services supplied. The council paid £12,000 to East Kent Housing in respect of services received. Balances due to and from East Kent Housing at 31 March 2020 were £16,000 and £45,000 respectively.

East Kent Housing also have an outstanding loan with Canterbury City Council of £278,000 which was for the implementation of the housing management single IT system.

The Chief Executive has been a director of East Kent Housing and chairman of the board of directors since 13 December 2019.

Precepting authorities

The Council collects council tax on behalf of its three major precepting authorities who in turn precept the Council. In addition, Kent County Council and Kent Fire and Rescue receive its share of business rates collected by the Council. Details are set out in the Collection Fund on pages 85-88. Kent County Council also administers the Kent Pension Fund on behalf of Kent districts (see pages 70-75).

26 Private Finance Initiative (PFI)

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

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

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

27 Impairment losses

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

28 Pension Costs

Participation in pension schemes

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

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

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

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

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

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

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

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

Impact of McCloud/Sargeant judgement

An allowance has been made for the December 2018 Court of Appeal judgement in relation to the McCloud & Sargeant cases which relate to age discrimination within the Judicial & Fire Pension schemes respectively as a result of the Government introducing reforms to public sector pensions in 2015. In June 2019 the Supreme Court denied the Government's request for an appeal and in July 2019 the Government released a statement to confirm that it expects to have to amend all public service schemes, including the LGPS. The estimated impact on the total liabilities at 31 March 2020 has been allowed for as a past service cost and has resulted in a slight increase in the defined benefit obligation. The projected service cost has also increased as a result of this additional allowance.

It should be noted that this adjustment is an estimate of the potential impact on the defined benefit obligation based on the 2019 analysis carried out by the Government Actuary's Department (GAD). It is not yet clear how this judgement may affect LGPS members' past or future service benefits.

28.1 Transactions relating to retirement benefits

We recognise the cost of retirement benefits in the reported Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are

required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund balance during the year:

| 2018/19 | Transactions in the Comprehensive Income and Expenditure Statement | 2019/20 |
|----------------|---|----------------|
| £'000 | | £'000 |
| | Cost of Services | |
| 4,512 | Current Service cost | 4,190 |
| 0 | Past Service costs | 936 |
| (2,017) | Settlements and Curtailments | 37 |
| 62 | Administrative expense | 75 |
| | Financing and Investment income and expenditure | |
| 2,099 | Net interest expense | 1,766 |
| 4,656 | Total retirement benefit charged to the Surplus or Deficit on the provision of services | 7,004 |
| | Other retirement benefit charged to the Comprehensive Income and Expenditure statement | |
| | Remeasurement of the net defined benefit liability comprising: | |
| (6,487) | Return on plan assets (exc net interest expense amount) | 12,720 |
| (11,560) | Actuarial changes in demographic assumptions | (2,353) |
| 8,403 | Actuarial changes in financial assumptions | (16,195) |
| 0 | Other actuarial (gains)/losses on assets | (3,304) |
| 0 | Experience gain/loss on defined benefit obligation | 9,792 |
| (9,644) | Total retirement benefit charged to the other Comprehensive Income and Expenditure Statement | 660 |
| (4,988) | Total charged to the Comprehensive Income and Expenditure Statement | 7,664 |
| | Movements in Reserves Statement | |
| (4,656) | Reversal of net charges for retirement benefits in accordance with the code to the Surplus or Deficit for the provision of services | (7,004) |
| | Actual amount charged against the General Fund Balance for pensions in the year | |
| 4,248 | Employer contributions payable to the scheme | 3,962 |
| 278 | Unfunded benefits paid | 271 |

28.2 Pensions Assets and Liabilities recognised in the Balance Sheet

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

| 2018/19 | Net Pension Liability as at 31 March in Balance Sheet | 2019/20 |
|----------------|--|----------------|
| £'000 | | £'000 |
| 202,478 | Present value of the defined benefit obligation | 198,347 |
| 130,122 | Less fair value of plan assets | 122,066 |
| 72,356 | Sub-total | 76,281 |
| 3,516 | Other movements in the liability | 3,022 |
| 75,872 | Net liability arising from the defined benefit obligation | 79,303 |

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

| 2018/19 £'000 | Movement in Fair Value of scheme assets | 2019/20 £'000 |
|------------------|--|------------------|
| 124,340 | Opening fair value of scheme assets at 1 April | 130,122 |
| 3,123 | Interest income | 3,103 |
| | Remeasurement gain/(loss): | |
| 6,487 | Return on plan assets (exc amount in net interest expense) | (12,720) |
| 0 | Other actuarial gains/(losses) | 3,304 |
| (1,855) | Settlement prices paid | 0 |
| (62) | Administrative expenses | (75) |
| 4,526 | Employer Contribution | 4,233 |
| 859 | Employee Contribution | 1,273 |
| (7,296) | Estimated Benefits paid | (7,174) |
| 130,122 | Closing fair value of scheme assets at 31 March | 122,066 |

28.4 Reconciliation of Present Value of the Scheme Liabilities

| 2018/19 £'000 | Movement in Defined Benefit Obligation ('Scheme Liabilities') | 2019/20 £'000 |
|------------------|---|------------------|
| (209,726) | Opening balance at 1 April | (205,994) |
| (4,512) | Current service cost | (4,190) |
| (5,222) | Interest cost of pension scheme liabilities | (4,869) |
| (859) | Employee Contributions | (1,273) |
| | Remeasurement gains and losses: | |
| 11,560 | Actuarial gains/(losses) from demographic assumption changes | 2,353 |
| (8,403) | Actuarial gains/(losses) from financial assumption changes | 16,195 |
| 0 | Experience gain/(loss) on defined benefit obligation | (9,792) |
| (488) | Past service cost including curtailments | (973) |
| 278 | Unfunded pension payments | 271 |
| 7,018 | Estimated benefits paid | 6,903 |
| 4,360 | Liabilities extinguished on settlements | 0 |
| (205,994) | Closing balance at 31 March | (201,369) |

28.5 Local Government Pension Scheme Assets Comprised:

| 2018/19 £'000 | Pension Scheme Assets | 2019/20 £'000 |
|------------------|--|------------------|
| 2,270 | Cash (no quoted market price in an active market) | 3,195 |
| 89,225 | Equity instruments | 75,095 |
| | Bonds | |
| 856 | - Gilts (no quoted market price in an active market) | 948 |
| 11,849 | - Other | 15,910 |
| 15,629 | Property (no quoted market price in an active market) | 16,609 |
| 10,293 | Target Return Portfolio | 10,309 |
| 130,122 | Total Assets | 122,066 |

28.6 Local Government Pension Scheme Assets Breakdown

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

| | 2019/20 | |
|---|--------------|--------------|
| | % Quoted | % Unquoted |
| Fixed Interest Government Securities | | |
| UK | - | - |
| Overseas | 0.8% | - |
| Corporate Bonds | | |
| UK | 4.2% | - |
| Overseas | 8.8% | - |
| Equities | | |
| UK | 19.2% | - |
| Overseas | 38.6% | - |
| Property | | |
| All | - | 13.6% |
| Others | | |
| Absolute return portfolio | 8.4% | - |
| Private Equity | - | 2.5% |
| Infrastructure | - | 1.1% |
| Derivatives | - | (0.3%) |
| Cash/Temporary Investments | - | 2.6% |
| Net Current Assets | | |
| Debtors | - | 0.6% |
| Creditors | - | (0.3%) |
| Total | 80.1% | 19.9% |

28.7 Basis for Estimating Assets and Liabilities

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

Both the Local Government Pension Scheme and discretionary benefits liability have been estimated by Barnett Waddingham, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31 March 2019.

Valuation techniques are used to determine the fair values of directly held property and pooled property funds that form part of the pension fund assets. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property. Since the outbreak of COVID-19, as at the valuation date, valuers consider that they can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global.

The significant assumptions used by the actuary have been:

| 2018/19 | | 2019/20 |
|---------|---|---------|
| | <i>Mortality assumptions:</i> | |
| | Longevity at 65 for current pensioners | |
| 22.0 | - Men | 21.8 |
| 24.0 | - Women | 23.7 |
| | Longevity at 65 for future pensioners | |
| 23.7 | - Men | 23.2 |
| 25.8 | - Women | 25.2 |
| 3.45% | Rate of inflation (RPI) | 2.80% |
| 2.45% | Rate of inflation (CPI) | 2.00% |
| 3.95% | Rate of increased salaries | 3.00% |
| 2.45% | Rate of increase in pensions | 2.00% |
| 2.40% | Rate for discounting scheme liabilities | 2.35% |

The difference between RPI and CPI is less than assumed at the previous accounting date. This reflects the movement in market implied RPI inflation that occurred following the UK Statistics Authority's proposal to change how RPI is calculated and subsequent announcements from the Chancellor on the issue.

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

| <u>Sensitivity Analysis</u> | £'000 | £'000 | £'000 |
|---|--------------|--------------|--------------|
| Adjustment to discount rate | +0.1% | 0.0% | -0.1% |
| Present Value Total Obligation | 197,772 | 201,369 | 205,035 |
| Projected Service Cost | 4,322 | 4,439 | 4,559 |
| Adjustment to long term salary increase | +0.1% | 0.0% | -0.1% |
| Present Value Total Obligation | 201,620 | 201,369 | 201,120 |
| Projected Service Cost | 4,441 | 4,439 | 4,437 |
| Adjustment to pension increases & deferred revaluation | +0.1% | 0.0% | -0.1% |
| Present Value Total Obligation | 204,793 | 201,369 | 198,005 |
| Projected Service Cost | 4,557 | 4,439 | 4,324 |
| Adjustment to life expectancy assumptions | +1 year | none | -1 year |
| Present Value Total Obligation | 210,151 | 201,369 | 192,977 |
| Projected Service Cost | 4,575 | 4,439 | 4,307 |

28.8 Impact on the Council's Cashflow

The objectives of the scheme are to keep the employers' contribution as at a constant rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 8 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2022.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Council anticipates paying £3.8m employer contributions to the scheme in 2020/21.

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

29 Operating Leases payable

During 2011/12 the Council acquired more than an insignificant amount of use of the leisure facilities at Herne Bay High School for 25 years, in return for a payment of £2.4m. This arrangement is being treated as an operating lease payment of £98k in 2019/20, (£98k for 2018/19).

The future cash payments required under these leases are:

| Restated | | As at 31 | As at 31 |
|-------------------|---|-------------------|-------------------|
| As at 31 | | March 2020 | March 2021 |
| March 2019 | Details of period | £'000 | £'000 |
| | 98 Not later than one year | 98 | 98 |
| | 390 Later than one year and not later than five years | 390 | 390 |
| | 1,229 Later than five years | 1,131 | 1,034 |
| | 1,717 Total | 1,619 | 1,522 |

Operating Leases payable has been restated for 2018/19 and updated for 2019/20.

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

The total payments in respect of this contract were £1,259k for 2019/20 (£1,294k in 2018/19).

Operating Leases receivable

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

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

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

| As at 31 March 2019 | Details of period | As at 31 March 2020 |
|--------------------------------|---|--------------------------------|
| £'000 | | £'000 |
| | 635 Not later than one year | 499 |
| | 669 Later than one year and not later than five years | 745 |
| | 4,388 Later than five years | 4,570 |
| 5,692 | Total | 5,814 |

30 Assets held under Finance Leases

The Council has awarded a contract to Serco for the provision of its waste collection and other services. The assets used by Serco in the execution of these services constitute an embedded finance lease under IFRIC 4 conditions. The net book value of these assets as at 31 March 2020 has been included in the statements at a value of £424k with a corresponding long term liability for the same value. The assets will be depreciated over the life of the contract in line with the annual contract payments.

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

| Minimum Lease Payments | As at 31 March 2020 |
|---|--------------------------------|
| | £'000 |
| Not later than one year | 424 |
| Later than one year and not later than five years | 0 |
| Later than five years | 0 |
| Total | 424 |

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

| 31 March 2019 | 31 March 2020 |
|-------------------------|----------------------|
| £'000 | £'000 |
| 787 Embedded leases | 424 |
| 525 Receipts in advance | 417 |
| 1,312 | 841 |

31 Contingent Liability

The Council is aware of a business rate litigation between the Valuation Office and a number of Ratepayers concerning the rating of Automated Teller Machines. The outcome of the appeal was released in late May 2020 and, although the Supreme Court found in favour of the retailers in that they should not be assessed separately, the ruling implied that ATMs should have been part of the main assessment for the property. The ruling has many potential implications which are still to be considered and it is unknown at this stage how the VOA will proceed. No provision has been made within the accounts for the appeal at this stage, given the uncertainties surrounding the case.

32 Interest in joint arrangements

The Council entered into an arrangement with Dover District Council and Thanet District Council for the provision of the ICT service, HR services, customer services and Revenue and Benefits service. The joint ICT and HR services are hosted by Thanet District Council and Dover Council with all council's paying a

management fee for the services provided. The Revenue and Benefits and customer services functions are now provided by Civica jointly on behalf of the three councils.

The 2019/20 financial statements contain a long term debtor of £196k which represents the Canterbury City Council element of the EK Services reserve.

33 Provisions

| | NNDR Appeals £'000 | Other Provisions £'000 | Total £'000 |
|---------------------------------|-----------------------------------|---------------------------------------|------------------------|
| Balance at 31 March 2019 | (2,701) | (1,317) | (4,018) |
| Additional provisions made | (696) | 0 | (696) |
| Amounts used | 0 | 70 | 70 |
| Reversal of unused amounts | 0 | 0 | 0 |
| Balance at 31 March 2020 | (3,397) | (1,247) | (4,645) |

NNDR Appeals

This provision is the Council's share of the provision for appeals against NNDR ratings. The Valuation Office has a backlog of outstanding appeals, hence the current high provision.

Other Provisions

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

Housing Revenue Account Income and Expenditure Statement

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

| 2018/19 | 2019/20 |
|---|-----------------|
| £'000 Income | £'000 |
| (23,093) Dwelling rents (gross) note 8 | (22,924) |
| (660) Non-dwelling rents (gross) | (569) |
| (298) Leaseholders charges for service and facilities | (294) |
| (1,247) Other charges for services and facilities | (1,553) |
| (18) Revaluation of plant, property & equipment note 7 | (59) |
| (25,315) Total Income | (25,399) |
| Expenditure | |
| 6,462 Repairs and Maintenance | 6,949 |
| Supervision and management | |
| 3,695 General Management | 4,122 |
| 2,231 Special Services | 2,315 |
| 415 Rents, rates, council tax and insurance | 401 |
| 4,002 Depreciation charges note 6 | 4,012 |
| 19,771 Revaluation of plant, property & equipment note 7 | 10,258 |
| 25 Debt management costs | 22 |
| 0 Increase/(decrease) in provision for bad debts | 341 |
| 36,601 Total Expenditure | 28,420 |
| Net cost of HRA Services as included in the Comprehensive Income and Expenditure Statement | 3,021 |
| 121 HRA services share of Corporate and Democratic Core | 121 |
| 11,407 Net cost of HRA Services | 3,143 |
| HRA share of the operating income and expenditure included in the comprehensive income and expenditure statement | |
| (2,261) Gain on sale of HRA fixed assets | (1,671) |
| 2,232 Interest payable and similar charges | 2,164 |
| Interest and investment income | |
| (44) Notional cash balances | (21) |
| 8 Pensions interest cost and expected return on pension assets Note 10 | 15 |
| (170) Capital grants and contributions receivable | (943) |
| 11,171 (Surplus)/Deficit for the year on HRA services | 2,687 |

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

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

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

3) Impairment losses of £10.2m due to the assessed increase in council house values following capital expenditure (multiplied by the social housing discount factor) being less than actual capital expenditure. These are all reversed out in the following statement.

Movement on the HRA Statement

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

| 2018/19 Net expenditure | | 2019/20 Net expenditure |
|------------------------------------|--|------------------------------------|
| £'000 | | £'000 |
| | Surplus (-)/Deficit for the year on the HRA Income and | |
| 11,171 | Expenditure Statement | 2,687 |
| | Adjustments between accounting basis and funding basis by | |
| <u>(2,335)</u> | statute | <u>(2,393)</u> |
| 8,835 | Net increase (-)/decrease before transfers to or from reserves | 294 |
| <u>(38)</u> | Transfers to/from(-) reserves (see table below) | <u>(5)</u> |
| 8,797 | Increase (-)/Decrease in HRA Balance for the year | 289 |
| <u>(12,975)</u> | Housing Revenue Account balance b/f at 1 April | <u>(4,177)</u> |
| <u>(4,177)</u> | Housing Revenue Account balance c/f at 31 March | <u>(3,888)</u> |

Movement on HRA Balance

| 2018/19 Net Expenditure | | 2019/20 Net Expenditure |
|----------------------------|---|----------------------------|
| | Items included in the HRA Income & Expenditure Account, but excluded from the movement on the HRA | |
| | £'000 Balance for the year | £'000 |
| (19,753) | Reversal of revaluation adjustments - Note 7 | (10,199) |
| 4,852 | Reversal: HRA loan repayment | 4,959 |
| 170 | Capital grants and contributions applied | 943 |
| 0 | Change in fair value of HRA investment properties | 0 |
| 2,261 | Net gain on sale of HRA fixed assets | 1,671 |
| | Difference between amounts charged to income and expenditure for premiums and discounts and the charge for | |
| (5) | the year determined by statute | 0 |
| 0 | Accrual for annual leave | 0 |
| | Net charges made for retirement benefits in accordance | |
| (26) | with IAS 19 - Note 10 | (48) |
| <u>(12,500)</u> | | <u>(2,675)</u> |
| | Items not included in the HRA Income & Expenditure Account, but included in the movement on the HRA Balance for the year | |
| 4,894 | Transfers to/(from) major repairs reserve - Note 3 | 0 |
| | Employer's contributions payable to Kent Pension Fund and | |
| 271 | retirement benefits payable direct to pensioners | 282 |
| 5,000 | Capital expenditure funded by the HRA - Note 4 | 0 |
| <u>10,165</u> | | <u>282</u> |
| <u>(2,335)</u> | Net adjustments between accounting basis and funding basis under statute | <u>(2,393)</u> |
| | Transfers to/from reserves | |
| (38) | Contribution to/(from) HRA subsidence and other reserves | (8) |
| <u>(38)</u> | Transfers to/from reserves | <u>(8)</u> |

Notes to the Housing Revenue Account

1 Housing Stock

At 31 March 2020, the council was responsible for managing 5,095 units of accommodation:

| | One | Two | Three | Four | |
|----------------------|--------------|--------------|--------------|------------|--------------|
| Flats - low rise | 1,086 | 317 | 5 | 0 | 1,408 |
| Flats - medium rise | 313 | 354 | 64 | 3 | 734 |
| Flats - high rise | 63 | 68 | 0 | 0 | 131 |
| Houses and bungalows | 361 | 920 | 1,412 | 107 | 2,800 |
| Hostel places | 20 | 2 | 0 | 0 | 22 |
| Totals | <u>1,843</u> | <u>1,661</u> | <u>1,481</u> | <u>110</u> | <u>5,095</u> |

Plus 11 basic homes (shared ownership dwellings)

The movement in housing stock can be summarised as follows:

| | Stock at 1 April 2019 | Right to buy sales | Additions | Other sales | Stock at 31 March 2020 |
|----------------------|--------------------------|-----------------------|-----------|----------------|------------------------------|
| Flats | 2,257 | (4) | 20 | 0 | 2,273 |
| Houses and bungalows | 2,798 | (16) | 18 | 0 | 2,800 |
| Hostels | 38 | 0 | 0 | (16) | 22 |
| Totals | 5,093 | (20) | 38 | (16) | 5,095 |

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

| 2018/19 £'000 | Operational assets | 2019/20 £'000 |
|------------------|---|------------------|
| 319,590 | Dwellings | 320,093 |
| 2,758 | Garages & Parking area | 2,962 |
| 905 | Community centres & communal open space | 899 |
| 395 | Land | 395 |
| 1,250 | Shops | 1,229 |
| 324,898 | Total | 325,578 |

2 Vacant possession value

The vacant possession value of dwellings within the HRA as at 31 March 2020 was £970m. For the balance sheet, the figure has been reduced to 33% i.e. £320.09m to show existing use value as social housing, reflecting the economic cost of providing social housing.

3 Major Repairs Reserve

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

| 2018/19 £'000 | Major Repairs Reserve | 2019/20 £'000 |
|------------------|---|------------------|
| 0 | Balance at 1 April | 0 |
| (4,002) | Transfer from capital adjustment account (HRA depreciation) | (4,012) |
| | Transfer to (-)/from HRA | |
| (4,894) | Voluntary transfer to/from MRR | 0 |
| 8,896 | Less: expenditure on dwellings financed from this reserve | 4,012 |
| 0 | Balance at 31 March | 0 |

4 Summary of Capital Financing

Capital expenditure of £11.2m was spent on housing assets within the HRA during the year. This was financed as follows:

| 2018/19 | Capital financing of HRA expenditure | 2019/20 |
|---------------|--------------------------------------|---------------|
| £'000 | | £'000 |
| 8,896 | Major repairs reserve | 4,012 |
| 5,000 | Use of Reserves | 0 |
| 11,000 | Capital receipts | 2,435 |
| 170 | Capital grant & contributions | 943 |
| 0 | Borrowing | 3,837 |
| 25,067 | Total | 11,226 |

5 Summary of Capital Receipts

Housing capital receipts during 2019/20 were as follows:

| 2018/19 | Housing capital receipts | 2019/20 |
|----------------|--|----------------|
| £'000 | | £'000 |
| (4,941) | Dwelling sales (net of administration deduction) | (3,370) |
| 0 | Other sales | (23) |
| 0 | Mortgage repayments and discounts repaid | 0 |
| (4,941) | Total | (3,393) |

6 Depreciation of property, plant and equipment

Depreciation of £4m was charged to the HRA. This comprises of £3.94m for dwellings and £76k for non-dwelling housing assets.

7 Revaluation of property, plant and equipment

| 2018/19 | | 2019/20 |
|---------------|---|---------------|
| £'000 | | £'000 |
| 25,067 | Capital expenditure | 11,226 |
| 16,386 | Less assessed net increase in effective value | 2,833 |
| 8,680 | Decrease in effective value | 8,393 |
| 0 | Impairment of non-dwelling assets | 0 |
| 11,091 | Social value reduction | 1,865 |
| 19,771 | Total reduction in valuation | 10,258 |
| 18 | Valuation increase applied to CIES | 59 |
| 19,753 | Net revaluation total | 10,199 |

The reduction in the valuation of the capital expenditure for 2018/19 is significantly higher than previous years. This reflects the discounted value applied to the properties acquired and capital expenditure incurred for the use of rented social housing.

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 £90.01 per payment week in 2019/20 (£89.91 in 2018/19).

9 Rent Arrears

The rent arrears figures are as follows:

| 2018/19 £'000 | 2019/20 £'000 |
|--|------------------|
| 1,152 Gross rent arrears at 31 March | 1,348 |
| <u>(605)</u> Repayments of rent | <u>(708)</u> |
| 548 Net rent arrears at 31 March | 639 |
| <u>787</u> Provision for bad debts at 31 March | <u>989</u> |
| <u>%</u> | <u>%</u> |
| Gross rent arrears as a proportion of gross dwelling rent income | 5.9 |

10 HRA share of pensions

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

| 2018/19 £'000 | 2019/20 £'000 |
|--|------------------|
| 10 HRA share of current service cost less employer contributions | 21 |
| <u>(263)</u> HRA share of past service cost less employer contributions | <u>(270)</u> |
| <u>(253)</u> Adjustment to 'General Management' line of HRA statement | <u>(249)</u> |
| 8 HRA share of pensions interest cost and expected return on Pensions assets | 15 |
| <u>(245)</u> | <u>(234)</u> |
| Net charges made for retirement benefits in accordance with IAS 19 | (48) |
| (26) 19 Employer's contributions payable to the Kent Pension Fund and retirement benefits payable direct to pensioners | 282 |
| <u>271</u> | <u>234</u> |
| <u>245</u> HRA share of contributions to/from Pensions Reserve | <u>234</u> |
| <u>0</u> Net effect on HRA balance | <u>0</u> |

11. Interests in Companies – East Kent Housing Limited

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

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

The (unaudited) financial results of the company for 2019/20 and the council's share are shown in the following table:

| 2018/19 East Kent Housing Ltd restated £'000 | 2018/19 CCC Share (25%) restated £'000 | | 2019/20 East Kent Housing Ltd £'000 | 2019/20 CCC Share (25%) £'000 |
|---|---|------------------------------|--|--|
| 8,686 | 2,172 | Turnover | 10,092 | 2,523 |
| (9,566) | (2,392) | Expenses | (11,441) | (2,860) |
| (880) | (220) | Operational profit/(loss) | (1,349) | (337) |
| (1,156) | (289) | Profit/(loss) after taxation | (3,361) | (840) |
| | | Other comprehensive | | |
| 1,738 | 435 | income and (expenditure) | 1,161 | 290 |
| | | Total comprehensive | | |
| 582 | 146 | profit/(loss) for the year | (2,200) | (550) |
| 1,634 | 409 | Non-current assets | 283 | 71 |
| 942 | 236 | Current assets | 1,075 | 269 |
| (696) | (174) | Current liabilities | (2,280) | (570) |
| (998) | (250) | Non-current liabilities | 0 | 0 |
| (670) | (168) | Profit and loss reserve | 1,134 | 284 |
| (212) | (53) | Capital contribution | (212) | (53) |
| 9,501 | 2,375 | Pensions reserve | 9,897 | 2,474 |

The 2018/19 details have been restated to reflect the position of the audited Statement of Accounts for East Kent Housing.

The council's investment in the company is nominal.

Note 25 Related Party Transactions sets out the transactions that took place between the council and East Kent Housing Ltd over 2019/20.

The council's management fee payment of £3.32m is 33% of East Kent Housing Ltd.'s turnover of £10.09m which broadly equates to the council's pro-rata share of the total council housing stock managed by the company.

Impact of employee benefits (IAS19)

The council does not have a constructive obligation for a share of the pension fund liability, so this liability is not included in the council's accounts.

Collection Fund

| | | Income & Expenditure Account | | | | |
|--|-----------------|---|---|------|-----------------|-----------------|
| 2018/19 | 2018/19 | | | Note | 2019/20 | 2019/20 |
| CTAX | NNDR | Income | | | CTAX | NNDR |
| £'000 | £'000 | | | | £'000 | £'000 |
| (85,631) | | 0 | Income from council tax payers | | (91,351) | 0 |
| 0 | (54,405) | | Income from business ratepayers | | | (54,404) |
| (85,631) | (54,405) | | Total Income | | (91,351) | (54,404) |
| Expenditure | | | | | | |
| Precepts and demands | | | | | | |
| | | | | 2 | | |
| 0 | (38) | | Central Government | | | 25,310 |
| 61,896 | 29,468 | | Kent County Council | | 65,243 | 5,649 |
| 8,438 | | 0 | Police & Crime Commissioner for Kent | | 9,694 | 0 |
| 3,767 | 499 | | Kent & Medway Fire & Rescue Authority | | 3,906 | 525 |
| 10,960 | 19,952 | | Canterbury City Council | | 11,401 | 20,504 |
| 85,061 | 49,881 | | Total payments to preceptors | | 90,243 | 51,988 |
| Business rates | | | | | | |
| 0 | 229 | | Costs of collection | | | 234 |
| 0 | 326 | | Renewable Energy Schemes | | | 301 |
| 0 | 2,106 | | Transitional protection | | | 1,464 |
| Impairment of debts and appeals | | | | | | |
| 164 | 186 | | Write offs of uncollectable amounts | | 118 | 9 |
| 285 | 286 | | Increase/(decrease) in allowance for impairment | | 451 | 242 |
| 0 | 657 | | Increase/(decrease) in allowance for appeals | | | 1,731 |
| 85,510 | 53,671 | | Total Expenditure | | 90,813 | 55,969 |
| (121) | (734) | | Net (surplus)/deficit | | (539) | 1,565 |
| (120) | (1,021) | | Collection Fund balance at 1 April | | (241) | (1,755) |
| (241) | (1,755) | | Collection Fund balance at 31 March | | (780) | (190) |

Notes to the Collection Fund accounts

1. General Note

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

2. Precepts and Demands

Council Tax

The payments to the major preceptors are made up as follows:

| 2018/19 £'000 | | 2019/20 £'000 | |
|------------------|----------------------------------|-----------------------------------|---------------|
| 61,593 | Kent County Council | -Precept | 65,239 |
| <u>303</u> | | -Share of Collection Fund surplus | <u>4</u> |
| <u>61,896</u> | | | <u>65,243</u> |
| 8,401 | Kent Police & Crime Commissioner | -Precept | 9,697 |
| <u>37</u> | | -Share of Collection Fund surplus | <u>(4)</u> |
| <u>8,438</u> | | | <u>9,693</u> |
| 3,750 | Kent Fire & Rescue | -Precept | 3,904 |
| <u>17</u> | | -Share of Collection Fund surplus | <u>2</u> |
| <u>3,767</u> | | | <u>3,906</u> |
| 10,913 | Canterbury City Council | -Demand on Collection Fund | 11,397 |
| <u>47</u> | | -Share of Collection Fund surplus | <u>4</u> |
| <u>10,960</u> | | | <u>11,401</u> |
| <u>85,061</u> | Total | | <u>90,243</u> |

NNDR (Business Rates)

The payments to Central Government and the major preceptors (excludes Kent Police and Crime Commissioner) are as follows:

| 2018/19 £'000 | | 2019/20 £'000 |
|----------------------|-----------------------------------|----------------------|
| 0 | Central Government | |
| <u>(38)</u> | -Share of retained business rates | 24,518 |
| <u>(38)</u> | -Share of Collection Fund balance | <u>792</u> |
| | | <u>25,310</u> |
| 29,475 | Kent County Council | |
| <u>(7)</u> | -Share of retained business rates | 4,413 |
| <u>29,468</u> | -Share of Collection Fund balance | <u>1,236</u> |
| | | <u>5,649</u> |
| 500 | Kent Fire & Rescue | |
| <u>(1)</u> | -Share of retained business rates | 490 |
| <u>499</u> | -Share of Collection Fund balance | <u>34</u> |
| | | <u>525</u> |
| 19,983 | Canterbury City Council | |
| <u>(31)</u> | -Share of retained business rates | 19,615 |
| <u>19,952</u> | -Share of Collection Fund balance | <u>889</u> |
| | | <u>20,504</u> |
| <u>49,881</u> | Total | <u>51,988</u> |

For NNDR, the Collection Fund balance is shared as a deficit in 2018/19 and a surplus in 2019/20

In 2019/20, Canterbury continued with a pooled arrangement with Kent County Council in order to minimise the levy payment due to central government and thereby maximise the local retention of locally generated business rates.

Canterbury City Council is subject to a tariff on its share of the retained business rates, the net amount retained by the council is as follows:

| 2018/19 £'000 | | 2019/20 £'000 |
|---------------------|--|---------------------|
| 19,983 | Canterbury City Council - share of retained business rates | 19,615 |
| <u>(15,315)</u> | Tariff | <u>(16,289)</u> |
| <u>4,668</u> | Adjusted share of retained business rates | <u>3,326</u> |

3. Council Tax Base

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

The 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:

| 2018/19 Band D equivalent dwellings | Band | Estimated Number of Taxable Properties after effect of discounts | Ratio (ninths) | 2019/20 Band D equivalent dwellings |
|-------------------------------------|------------------|--|----------------|-------------------------------------|
| 2,422 | A | 3,808 | 6/9 | 2,539 |
| 7,132 | B | 9,378 | 7/9 | 7,294 |
| 13,936 | C | 15,766 | 8/9 | 14,014 |
| 10,931 | D | 10,965 | 9/9 | 10,965 |
| 7,785 | E | 6,459 | 11/9 | 7,894 |
| 5,266 | F | 3,659 | 13/9 | 5,285 |
| 3,327 | G | 2,020 | 15/9 | 3,366 |
| 140 | H | 67 | 18/9 | 134 |
| <u>50,939</u> | | <u>52,122</u> | | <u>51,491</u> |
| 98.9% | Collection Rate | | | 98.9% |
| <u>49,665</u> | Council Tax Base | | | <u>50,207</u> |

4. Income from Business Rates

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area which are based on local rateable values multiplied by a uniform rate in the pound. The total amount, less certain reliefs and other deductions, are allocated between Canterbury, central government and major preceptors. There was a general revaluation of all properties effective from 1 April 2017.

| 2018/19 £'000 | 2019/20 £'000 |
|--|------------------|
| 147,224 Non domestic rateable value | 147,668 |
| 0.480 small business non domestic rating multiplier | 0.491 |
| 70,667 NNDR levied | 72,505 |
| <u>(16,491) Less: allowances and other adjustments</u> | <u>(18,335)</u> |
| 54,176 Net contribution due to pool | 54,170 |
| 229 Cost of collection | 234 |
| <u>54,405 Income from business rate payers</u> | <u>54,404</u> |

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Deputy Chief Executive (Chief Financial Officer)
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the Statement of Accounts.

The Chief Financial Officer's responsibilities:

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

In preparing this Statement of Accounts, the Chief Financial Officer has:

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

The Chief Financial Officer has also:

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

The Statement of Accounts presents a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2020.

Signed



Patricia Marshall
Date 04 November 2020
Deputy Chief Executive (Chief Financial Officer)



Cllr Georgina Glover
Date 04 November 2020
Chair Audit Committee