

Statement of Accounts

for the Year Ended

31 March 2008

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THE STATEMENT OF ACCOUNTS

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THE STATEMENT OF ACCOUNTS

EXPLANATORY FOREWORD

1. INTRODUCTION

1.1. Changes to the Statement of Accounts

There have been some further changes to the statement in 2007/08 in order to make it more closely aligned with commercial accounts (in accordance with the 2007 code of practice). A new revaluation reserve has been created at 1 April 2007, with an opening balance of zero, which records increases in values of assets between 1 April 2007 and 31 March 2008 due to revaluations. The capital financing reserve has become the capital adjustment account and now holds the balance of the previous fixed asset restatement reserve at 31 March 2007. There have also been changes to financial instruments e.g. loans and investments, whereby the fair value has to be disclosed as well as the book value.

1.2. Contents of Statement of Accounts

The council's accounts for the year 2007/08 are set out on pages 13 to 49. They consist of:

The core financial statements:

- (a) the **Income and Expenditure Account** – the council's main revenue account, covering income and expenditure on all services.
- (b) the **Statement of Movement on the General Fund Balance** – reconciles the Income and Expenditure account to the General Fund Balance.
- (c) the **Statement of Total Recognised Gains and Losses** – brings together all the gains and losses of the council for the year.
- (d) the **Balance Sheet** – which sets out the financial position of the council on 31 March 2008.
- (e) the **Cash Flow Statement** – which summarises the total movement of the council's funds.
- (f) **The notes to all these core financial statements.**
- (g) the **Housing Revenue Account Income and Expenditure Account** – which shows income and expenditure on council housing.
- (h) the **Collection Fund Accounts** – which show income from council tax and business ratepayers and precept payments to Kent and Canterbury councils.
- (i) the **Statement of Responsibilities** for the Statement of Accounts.

1.3 These accounts are supported by the **Statement of Accounting Policies**, (set out on pages 5 to 12) which follows this Foreword and the **Annual Governance Statement** (pages 50 to 62).

1.4 This Foreword (pages 1 to 4) provides a brief explanation of the council's outturn financial position for 2007/08 and budget strategy for 2008/09.

2. BUDGET STRATEGY IN 2008/09

The council's budget preparations were developed over the course of the year in order to present estimates for 2008/09-2011/12 to Executive on 24 January 2008 and Full Council on 21 February 2008. This process included a series of councillor meetings (star chambers) with Heads of Service to assess essential growth based on corporate plan targets and actions, and on proposals for savings. It also took account of the feedback on budget consultation undertaken by Research for Today.

The budget strategy is intended to provide the resources to deliver the ambitions of the council expressed in the new Corporate Plan.

The key strategic issues taken into account were:

- (a) The need to achieve a long-term sustainable financial position which takes account of the council's on-going commitments, its ambitions and the need to meet new responsibilities.
- (b) The three-year financial settlement for local government provided by central government and the continuation of council tax capping powers.

2. BUDGET STRATEGY IN 2008/09 (continued)

- (c) The greater focus on efficiency and value for money in service provision.
 (d) The policy on reserves and balances approved by the Council in February 2007.
 (e) The Executive's desire to review areas of charging, so that in appropriate cases users rather than taxpayers contribute more.
 (f) The demands of the Audit Commission's Use of Resources assessment.

With the threat of capping, the Executive and council considered the position and made changes which enabled the council to limit the council tax increase to 4.74%.

3. DIFFERENCES BETWEEN PLANS AND OUTTURN FOR 2007/08

The purpose of this statement is to give an indication in broad terms of the main differences between plans and outturn for 2007/08 for General Fund and Housing Services and the reasons for those differences.

3.1. General Fund Revenue Expenditure

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

	Original Estimate	Approved Estimate	Actual	Difference from Approved
	£ ' 000	£ ' 000	£ ' 000	£ ' 000
Expenditure				
Net expenditure (excluding Parish precepts)	20,248	20,460	20,094	-366
Add : Parish precepts	482	482	482	0
Total Expenditure	20,730	20,942	20,576	-366
Income				
Revenue support grant	1,744	1,744	1,744	-
NNDR allocation	10,390	10,390	10,390	-
Met by local council taxpayers	8,596	8,596	8,596	-
Collection fund surplus	0	0	0	-
Total Income	20,730	20,730	20,730	-
Deficit / surplus(-) for the year (i.e. amount funded from balances)	0	212	-154	-366
Balance brought forward	2,188	2,188	2,188	-
Balance carried forward	2,188	1,976	2,342	-366

The overall position for the financial year 2007/08 was as follows:

	£ ' 000
Original Budget (excluding Parish Precepts)	20,248
Underspendings on items in the 2006/07 budget which were carried forward into 2007/08. (approved at Executive Committee on 9 July 2007)	212
Approved budget for 2007/08	20,460
Actual expenditure	20,094
Net underspend	-366

Major variations between Actual and Approved Budget were:

Underspendings

Departmental savings	-533	
(Chief Executive -29, Corporate Services -326, Community & environment -178)		
Reduced interest payable	-373	
Superannuation backfunding	-159	
Reduced Housing Benefit Bad Debt provision	-109	
Corporate contingencies	-66	
Revenues division	-69	
Staff savings: Finance division(-67) and ICT & Cent.Services(-65)	-132	
Minimum Revenue Provision	-63	-1504

3.1. General Fund Revenue Expenditure (continued)

Major variations between Actual and Approved Budget (continued):	£ ' 000
b/f from previous page	-1504
Additional Income	
Additional Housing Benefit subsidy	-454
Interest receipts due to higher rates and good cash-flow management	-466
KCC second homes money	-79
Development control income and salary saving	-77
Additional Housing Benefit Administration grant	-40
Westgate Hall and Kings Hall - operational surplus compared to budget	-40
	-2660
Offset by :	
Concessionary Fares	526
Commercial and Industrial estate rent income shortfall	525
Property Services non-general fund income - under recovery	230
Car park income shortfall	201
Contingent VAT liability - provision for potential loss (park & ride)	136
Tour de France	100
Building Control - increased costs and reduced income	97
Market and Boot Fairs income shortfall	84
Transport & Engineering non-general fund income - under-recovery	69
Sponsorship	50
Marlowe Theatre - overall deficit	36
Other (Chief Exec -193, Community & environment -22, Corp Servs -25)	240
NET UNDERSPEND	-366

3.2. Housing Revenue Expenditure

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

	Original Estimate	Approved Estimate	Actual	Difference from Original
	£ ' 000	£ ' 000	£ ' 000	£ ' 000
Expenditure				
Repairs and maintenance	3,839	3,839	4,142	303
Supervision and management etc. (incl. rent, rates & contribution to reserves & bad debt provision)	5,897	5,897	5,683	-214
Housing subsidy payable	4,303	4,303	4,138	-165
Interest and similar charges	462	462	454	-8
Depreciation charge plus MRR transfer	3,709	3,709	3,709	0
Capital expenditure charged to revenue	1,062	1,062	620	-442
Total Expenditure	19,272	19,272	18,746	-526
Income				
Gross rent income	18,641	18,641	18,894	-253
Charges for services and other income	1,238	1,238	1,460	-222
Interest on mortgages and balances	259	259	390	-131
Total Income	20,138	20,138	20,744	-606
Surplus(-) / deficit for the year	-866	-866	-1,998	-1,132
Balance brought forward	5,689	5,689	5,689	-
Balance carried forward	6,555	6,555	7,687	-1,132

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

Note : MRR = major repairs reserve.

3.3. Capital Expenditure

Capital expenditure relates to spending on assets which last for more than one year. The city council spent £11,047,000 on capital schemes in 2007/08. This was financed by grants, capital receipts and revenue with the balance of £2,427,000 from borrowing.

There were underspendings in the general fund capital programme, and the purchase of the Friars Motor Company building for the Marlowe Theatre development took place on 1 Apr 2008 rather than 31 March 2008.

	Original Estimate	Approved Estimate incl. c/f's & addns.	Actual	Difference from Approved
	£ ' 000	£ ' 000	£ ' 000	£ ' 000
Housing capital	5,095	5,095	4,653	-442
Coast protection capital	797	747	560	-187
Other general fund capital	9,483	10,552	5,834	-4,718
Total Capital Expenditure	15,375	16,394	11,047	-5,347

4.1 Future Capital Expenditure

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

4.2 Borrowing

The council's debt outstanding increased from £23.8m in March 2007 to £26.8m in March 2008, whilst its investments decreased from £40.6m to £36.3m - a decrease in net investments of £7.3m. Over 99% of the council's debt is with the Public Works Loan Board and over 99% of its investments are now managed internally. The average interest rate for new borrowing in the year was 4.5%.

5. Pensions liability

The statements have to show Canterbury's assessed share of any liability in the KCC superannuation fund. Thus note 15 to the core financial statements on page 22 of the statement shows that the total value of liabilities (i.e. future commitments from the fund) is £116m whereas the estimated assets are valued at £75m - a net deficit of £41m - which is being made up over a number of years by increasing the rates at which contributions are payable into the fund. The deficit has however fallen by £9m from £50m at 31 March 2007.

6. Conclusion

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

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

Director of Corporate Services

11 June 2008

STATEMENT OF ACCOUNTING POLICIES

1. GENERAL PRINCIPLES

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

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

Relevance, Reliability, Comparability and Understandability.

The following accounting concepts have been given precedence:

- i) Materiality – i.e. is the financial information significant enough to justify its inclusion in the financial statement?
- ii) Going concern – the accounts are prepared on the assumption that the authority will continue in existence for the foreseeable future.
- iii) Accruals – the financial statements, other than the cash flow statement, have been prepared on an accrual basis i.e. non-cash effects of transactions are reflected in the accounting period in which those effects are experienced and not in the period in which any cash is received or paid.
- iv) Legislative requirements – the statements conform to the “Code of Practice on Local Authority Accounting in the United Kingdom 2007 - A Statement of Recommended Practice” (the 2007 SORP), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This is recognised by statute [The Accounts and Audit Regulations 2003 and by sections 41 and 42 of the Local Government and Housing Act 1989] as representing proper accounting practices. This includes compliance with the Best Value Accounting Code of Practice (BVACOP) which was introduced with effect from 1 April 2000. The code is based on both approved accounting standards, known as Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs) approved by the Accounting Standards Board.

2. INTANGIBLE FIXED ASSETS

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

3. TANGIBLE FIXED ASSETS

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

3.1 Recognition and accruals

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

3.2 Valuation methods

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

STATEMENT OF ACCOUNTING POLICIES (continued)

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

3.3 Revaluations

Subsequent revaluations of fixed assets are planned at five yearly intervals, for land and buildings, community assets and investment properties, although material changes to asset valuations will be adjusted in the interim period, as they occur. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

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.

3.4 Impairment

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

- a. where attributable to the clear consumption of economic benefits – the loss is charged to the relevant revenue account
- b. otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account, but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

3.5 Disposals (and Capital Receipts)

When an asset is disposed of, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the government. (It is shown in the statements as "Contribution to housing pooled capital receipts"). The balance of receipts is required to be credited to the Usable Capital Receipts reserve, and can then only be used for new capital

STATEMENT OF ACCOUNTING POLICIES (continued)

investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the Statement of Movement on the General Fund Balance.

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

4. DEPRECIATION

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

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

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

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.

5. (GOVERNMENT) GRANTS AND CONTRIBUTIONS

Where the acquisition of a depreciating fixed asset (with a finite useful life) is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is credited initially to the government grants - deferred account (see note 29 to the core financial statements). The balance is then written-down to revenue over the useful life of the asset, to match the depreciation charged on the asset to which it relates.

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

6. CHARGES TO REVENUE FOR FIXED ASSETS

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

- i) depreciation attributable to the assets used by the relevant service.
- ii) impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service, and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.
- iii) amortisation of intangible fixed assets attributable to the service.

STATEMENT OF ACCOUNTING POLICIES (continued)

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

7. DEFERRED CHARGES

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

8. LEASES

8.1 Finance Leases

Where assets were acquired under finance leases, the leasing rentals payable are charged to revenue. The cost of the assets and the related liability for future rentals payable are not shown in the balance sheet (since the value outstanding is non material), but are disclosed in note 33 to the core financial statements.

8.2 Operating Leases

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

9. FINANCIAL LIABILITIES (Borrowing)

9.1 Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For the borrowings that the council has, this means that the amount shown in the Balance Sheet is the outstanding principal repayable plus accrued interest, and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement. For the disclosure note regarding fair value (note 38), the council has based its fair value report on the comparable new borrowing / deposit rate for the same financial instrument from a comparable lender. A consistent approach has been applied to assets and liabilities.

9.2 Repurchase of Borrowing

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments (loans), the premium or

STATEMENT OF ACCOUNTING POLICIES (continued)

discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Income and Expenditure Account 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 Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The difference between the amounts charged to the Income and Expenditure Account and the net charge required against the General Fund Balance, is a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

10. FINANCIAL ASSETS (Investments)

Financial assets are classified into two types:

- loans and receivables – assets (investments) that have fixed or determinable payments, but are not quoted in an active market.
- available-for-sale assets – assets (investments) that have a quoted market price and / or do not have fixed or determinable payments.

10.1 Loans and receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account 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 investments that the council has made, this means that the amount shown in the Balance Sheet is the outstanding principal receivable plus accrued interest, and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

10.2 Soft Loans

However, the council has made a number of loans to voluntary organisations at less than market rates (now known as soft loans). When soft loans are made, a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the loan, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a 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 actual interest receivable for the financial year. The difference is credited or debited to the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

10.3 Available-for-sale Assets

Available-for-sale assets are initially measured and carried in the Balance Sheet at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Income and Expenditure Account when it becomes receivable by the Council.

Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.
-

STATEMENT OF ACCOUNTING POLICIES (continued)

Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses.

11. CURRENT ASSETS AND LIABILITIES

11.1 Debtors and Creditors

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

11.2 Stocks

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

12. RESERVES

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

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits. These do not represent usable resources for the council.

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

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

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

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

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

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

These two cost categories are defined in BVACOP and accounted for as separate headings in the Income and Expenditure Account, as part of Net Cost of Services.

14. PENSION COSTS

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

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

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

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

- i) The liabilities of the Kent pension scheme attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of earnings for current employees.
- ii) Liabilities are discounted to their values at current prices, using a discount rate of 5.4% (based on the indicative rate of return on the iboxx Sterling Corporates Index, AA over 15 years, at the FRS17 valuation date).
- iii) The assets of the Kent pension fund attributable to the council are included in the balance sheet at their fair value:
 - i) Quoted securities – mid-market value
 - ii) Unquoted securities – professional estimate
 - iii) Unitised securities – average of the bid and offer rates
 - iv) Property – market value
- iv) The change in the net pensions liability is analysed into seven components:
 - i) Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked
 - ii) Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs

STATEMENT OF ACCOUNTING POLICIES (continued)

14. PENSION COSTS (continued)

- iii) Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account
- iv) Expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account
- v) Gains / losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- vi) Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains and Losses
- vii) Contributions paid to the Kent pension fund – cash paid as employer's contributions to the pension fund.

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

15. VAT

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

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2008

2006/07 Net Expenditure As restated		2007/08 Gross Expenditure	2007/08 Income	2007/08 Net Expenditure
£' 000	EXPENDITURE ON SERVICES (Note 1)	£' 000	£' 000	£' 000
	Cultural, Environmental & Planning Services			
2,689	Culture and heritage	7,597	-5,049	2,548
3,352	Recreation, sport & open spaces	4,449	-804	3,645
897	Tourism	1,704	-468	1,236
616	Coast protection	1,277	-480	797
2,605	Waste collection & disposal	3,284	-484	2,800
4,274	Other environmental services	5,256	-833	4,423
3,709	Planning & development services	7,922	-3,077	4,845
	Highways, Roads & Transport Services			
314	Highways	697	-367	330
-459	Parking services, public transport & harbour	7,310	-7,058	252
	Housing Services			
-3,346	Housing Revenue Account (Note 2)	26,430	-20,417	6,013
174	Housing benefits payments & administration	30,067	-30,165	-98
1,129	Other housing services (non HRA)	1,771	-417	1,354
	Central Services			
1,008	Local tax collection costs	1,695	-517	1,178
173	Council tax benefits	8,963	-8,726	237
204	Other central services	705	-417	288
2,545	Corporate and Democratic Core	4,598	-1,390	3,208
10	Non Distributed Costs - Pensions (Note 15)	30	0	30
0	- Impairment losses re non-operational assets	4,581	0	4,581
19,894	NET COST OF SERVICES	118,336	-80,669	37,667
	Corporate income and expenditure			
-6,578	Deficit/surplus(-) on the disposal of fixed assets	0	1,844	1,844
567	Parish council precepts & IDB levy	592	0	592
-3,275	Surplus from trading operations (Note 3)	1,173	-4,111	-2,938
1,592	Contribn.of housing capital receipts to Govt pool	1,765	0	1,765
1,493	Interest payable & premium on repurch of borr.	1,151	0	1,151
-1,841	Interest and investment income	49	-2,607	-2,558
1,380	Pensions interest cost and expected return on pension assets (Note 15)	1,290	0	1,290
13,232	NET OPERATING EXPENDITURE	124,356	-85,543	38,813
	Sources of finance			
-8,291	Demand on the Collection Fund (Note 7)			-8,596
-1,905	General government grants - Revenue support grant			-1,744
-1,407	LABGI grant			-972
-9,828	Distribution from non-domestic rate pool			-10,390
-8,199	SURPLUS (-) / DEFICIT FOR THE YEAR			17,111

The 2006/07 comparatives have been restated by transferring some services previously classified as trading undertakings to their respective BVACOP headings in the expenditure on services section above.

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

- 1) Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- 2) The payment of a share of housing capital receipts to the Government counts as a loss in the Income and Expenditure Account, but is met from the usable capital receipts balance rather than council tax.
- 3) Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.
- 4) The above includes the notional loss from the sale of fixed assets compared to their net book value. The major item in 2007/08 is the donation of the former housing assets for the housing PFI scheme (see note 30a). In practice this "loss" cannot be charged to revenue and is reversed out in the statement on the next page. Major items in 2006/07 were the "profit" on Kingsmead site (£5,973k) & 16 St Radigunds (£502k).
- 5) The main reason for the deficit this year is that there is an impairment charge of £15,064k distributed in the net cost of services, which reflects the general fall in values in both general fund assets and council dwellings, which is reversed out in the next statement.

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE for the YEAR ENDED 31 MARCH 2008

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

2006/07 Net Expenditure		2007/08 Net Expenditure
£' 000		£' 000
-8,199	Surplus (-) / Deficit for the year on the Income & Expenditure Account	17,111
8,046	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year.	-17,265
-153	Increase (-) / Decrease in General Fund Balance for the year	-154
-2,035	GENERAL FUND BALANCE B/F AT 1 APRIL	-2,188
-2,188	GENERAL FUND BALANCE C/F AT 31 MARCH	-2,342

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

2006/07 Net Expenditure		2007/08 Net Expenditure
	Amounts included in the Income and Expenditure Account, but required by statute to be <u>excluded</u> when determining the Movement on the General Fund Balance for the year.	
£' 000		£' 000
-76	Amortisation of intangible fixed assets.	-72
-2,445	Depreciation of fixed assets.	-2,867
0	Impairment of fixed assets.	-15,064
900	Government grants deferred and other capital contributions written out to revenue.	816
-837	Deferred charges written down to be financed from capital resources. (Note 18)	-1,517
0	Repayments of Soft Loans and Housing Act Advances from capital resources.	-59
6,578	Net gain / loss(-) on sale of fixed assets.	-1,844
0	Difference between amounts debited/credited to the I&E a/c and amounts payable/receivable to be recognised under statutory provisions re soft loans and premiums on the early repayment of debt.	225
-4,710	Net charges made for retirement benefits in accordance with FRS17. (Note 15)	-4,320
-590		-24,702
	Amounts <u>not</u> included in the Income and Expenditure Account, but required by statute to be <u>included</u> when determining the Movement on the General Fund Balance for the year.	
726	Minimum revenue provision for capital financing	762
1,827	Capital expenditure charged in-year to General Fund Balance	902
-1,592	Contribution from usable capital receipts reserve to meet payments to the Housing Capital Receipts Pool	-1,765
3,790	Employer's contributions payable to the Kent Pension Fund and retirement benefits payable direct to pensioners(Note 15)	4,290
4,751		4,189
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year.	
960	Transfer to / from (-) HRA balances	1,998
427	Transfer to / from major repairs reserve (Note 3 to HRA)	539
2,498	Net transfer to / from earmarked reserves (Note 35e)	711
3,885		3,248
8,046	Net additional amount required to be debited or credited to the General Fund balance for the year.	-17,265

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (STRGL)

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

2006/07	STRGL	2007/08
£' 000		£' 000
	Surplus (-) / deficit for the year:	£' 000
-8,199	- Income and Expenditure Account	17,111
141	- Collection Fund Revenue Account	27
-29,077	Surplus (-) / loss arising on revaluation of fixed assets (see note 35a to core financial statements)	-8,917
-7,240	Actuarial gains (-) / losses on pension fund assets & liabilities (see note 15 to core financial statements for details)	-8,710
-44,375	Total recognised gains (-) and losses	-489

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

Total Net Worth	
	£' 000
At 31 March 2008	450,084
At 31 March 2007 (**)	449,595
Change in Total Net Worth	-489

(**) After restatement. £449,217k as per the 2006/07 statement plus £1,825k addition to capital adjustment account re surplus housing assets prior to their donation as part of the PFI scheme, less £1,506 premiums and discounts and £96k soft loans previously shown in the top half of the balance sheet are now shown as part of the Financial Instruments Adjustment Account which comprise "Total Net Worth". £155k re deferred capital receipts is also now part of "Total Net Worth".

BALANCE SHEET AS AT 31ST MARCH

2007 As restated			2008	
£ ' 000	£ ' 000		£ ' 000	£ ' 000
185		NET FIXED ASSETS		
		Intangible assets	145	
		Tangible assets		
		Operational assets-		
321,202		Council dwellings	310,568	
67,438		Other land and buildings	67,188	
28,660		Infrastructure assets	28,545	
1,671		Vehicles, plant and equipment	1,748	
1,760		Community assets	1,779	
		Non-operational assets-		
76,510		Investment properties	79,248	
281		Assets under construction	1,656	
7,473		Surplus assets, held for disposal	5,912	
	505,180	TOTAL FIXED ASSETS		496,789
	501	Long-Term Debtors	23	415
	505,681	TOTAL LONG-TERM ASSETS		497,204
		CURRENT ASSETS		
167		Stocks in hand	24	161
9,736		Debtors	25	14,455
-3,553		Less : Provision for Bad Debts	26	-3,290
410		Payments in Advance		653
41,091		Investments (Short-term)	28	37,212
419		Cash in hand		388
	48,270			49,579
	553,951	TOTAL ASSETS		546,783
		CURRENT LIABILITIES		
13,460		Creditors	27	11,169
1,731		Deposits & receipts in advance		1,962
3,051		Short-term borrowing		7
1,327		Bank overdraft		1,935
	-19,569			-15,073
	534,382	TOTAL ASSETS LESS CURRENT LIABILITIES		531,710
		LONG-TERM LIABILITIES		
21,064		Long-term borrowing	39	27,018
14,173		Government grants deferred	29	13,738
49,550		Liability related to defined benefit pension scheme	15	40,870
	-84,787			-81,626
	449,595	TOTAL ASSETS LESS LIABILITIES		450,084
	£ ' 000	FINANCED BY:	35	£ ' 000
	0	Revaluation reserve	35a	8,749
	470,081	Capital adjustment account	35c	451,655
	-1,602	Financial instruments adjustment account	35b	-1,377
	12,159	Usable capital receipts reserve	35d	10,636
	-49,550	Pensions reserve	15	-40,870
	155	Deferred capital receipts	30	103
	188	Major repairs reserve		188
	10,111	Earmarked reserves	35e	10,822
		Revenue Balances		
2,188		General Fund		2,342
5,689		Housing Revenue Account		7,687
176		Collection Fund Revenue Account		149
	8,053			10,178
	449,595	TOTAL NET WORTH		450,084

The Balance sheet figures for 31 March 2007 have been adjusted from those included in the 2006/07 Statement to accommodate the implementation of the Revaluation Reserve (see accounting policy 3.3). The Revaluation Reserve replaces the Fixed Asset Restatement Account (FARA). The credit balance of £386m on the FARA at 31 March 2007 has been written off to the Capital Financing Account (£82m credit balance) to form the new Capital Adjustment Account (CAA) with a balance of £468m. The Revaluation Reserve has been included with a zero opening balance. In addition £1,825k has been added to both surplus assets and the CAA comparatives re the properties that were donated to the housing PFI scheme in 2007/08. (see note 30a)

CASH FLOW STATEMENT

2006/07		2007/08		
£' 000		£' 000	£' 000	£' 000
	REVENUE ACTIVITIES			
	CASH OUTFLOWS			
24,141	Cash paid to and on behalf of employees	25,122		
31,879	Other operating cash payments	39,317		
46,490	Kent County Council precept paid	49,080		
5,889	Kent Police Authority precept paid	6,219		
3,006	Kent & Medway Fire Authority precept paid	3,138		
15,678	Housing Benefit paid out	16,586		
39,391	National non-domestic rates paid to national pool	43,528		
1,592	Payments to the capital receipts pool	1,818		
168,066			184,808	
	CASH INFLOWS			
6,124	Net rents (after rebates)	6,465		
56,051	Council tax receipts	59,439		
40,340	Local Non-domestic rate receipts	40,905		
9,828	Non-domestic rate receipts from national pool	10,390		
1,905	Revenue support grant	1,744		
27,787	DWP grants for housing rebates	28,938		
9,629	DWP grant for council tax rebates	7,945		
4,857	Other government grants (Note 43)	4,172		
22,328	Cash received for goods and services	21,971		
806	Other operating cash receipts	707		
-179,655			-182,676	
-11,589	REVENUE ACTIVITIES NET CASH FLOW (Note 40)			2,132
	RETURNS ON INVESTMENTS & SERVICING OF FINANCE			
	CASH OUTFLOWS			
1,355	Interest paid		1,242	
	CASH INFLOWS			
-1,420	Interest received		-2,252	
-65	NET INTEREST			-1,010
	CAPITAL ACTIVITIES			
	CASH OUTFLOWS			
13,805	Purchase of fixed assets	8,516		
2,290	Deferred charges	2,531		
16,095			11,047	
	CASH INFLOWS			
13,921	Sales of fixed assets	2,802		
6,817	Capital grants received (Note 44)	1,439		
49	Other capital cash receipts	56		
-20,787	(Principal repayments of Soft Loans etc)		-4,297	
-4,692	CAPITAL ACTIVITIES NET CASH FLOW			6,750
-16,346	NET CASH INFLOW/OUTFLOW BEFORE FINANCING			7,872
	MANAGEMENT OF LIQUID RESOURCES			
14,726	Net increase / decrease in short-term investments (Note 41)			-4,234
	FINANCING			
	CASH OUTFLOWS			
2,001	Repayments of long-term borrowing (Note 41)		2,251	
7,149	Repayments of short-term borrowing (Note 41)		3,000	
	CASH INFLOWS			
-8,000	New long-term loans raised (Note 41)		-8,250	
0	New short-term loans raised (Note 41)		0	
1,150	FINANCING NET CASH FLOW			-2,999
-470	NET INCREASE (-) / DECREASE IN CASH (Note 42)			639

NOTES TO THE CORE FINANCIAL STATEMENTS

1. EXPENDITURE ON SERVICES

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

2. HOUSING REVENUE ACCOUNT

Reconciliation of figures above to Housing Revenue Account net cost of services in 2006/07 & 2007/08.

2006/07 Net		2007/08 Expenditure	2007/08 Income	2007/08 Net
£' 000		£' 000	£' 000	£' 000
-3,359	Expenditure & income per HRA A/C's	26,382	-20,357	6,025
66	Add: Transfers from reserves	48	0	48
-53	Less: Transfers to reserves	0	-60	-60
-3,346	TOTAL	26,430	-20,417	6,013

3. TRADING UNDERTAKINGS

The council operates the following trading undertakings:

2006/07 Net As restated	Name of Trading Undertaking	2007/08 Expenditure	2007/08 Income	2007/08 Net
£' 000		£' 000	£' 000	£' 000
3	Cultural, Environmental & Planning Services			
	Markets (incl. boot fairs)	279	-265	14
	Trading Services			
-526	Industrial Estates	96	-608	-512
-2,752	Other Estates	798	-3,238	-2,440
-3,275	TOTAL	1,173	-4,111	-2,938

Services previously disclosed as Trading Undertakings have been reclassified under the service heading in the Income and Expenditure Account i.e. Marlowe Theatre is now under Culture and Heritage, Public Halls are now under Recreation, and Harbour is now under Parking Services, Public Transport and Harbour. The 2006/07 comparatives have also been restated.

4. BUILDING CONTROL TRADING ACCOUNT

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

2006/07 Chargeable	Building Regulations Charging Account	2007/08 Chargeable	2007/08 Non Chargeable	2007/08 Total
£' 000		£' 000	£' 000	£' 000
620	Expenditure	653	112	765
-600	Income	-515	-2	-517
20	Surplus(-) / Deficit for Year	138	110	248

The building control fee was increased in January 2008. There has also been a staff restructure with effect from April 2008 in order to reduce the deficit.

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

5. CONTINGENT LIABILITY

In May 2007, HM Revenue & Customs raised an assessment for £459,679 (covering the period April 2004 to January 2007) in respect of VAT which they deem to be due on Park & Ride income, on the basis that it is purely a parking fee and therefore subject to VAT. This is being strongly contested and we anticipate a favourable outcome as our tax advisers consider this supply should be classed as zero-rated transport. Adding further assessments for February 2007 to March 2008 brings the sum claimed to £678,345. A reserve has been set up for 20% of this sum in 2007/08 (see note 35e)

6. KENT BENEFITS PARTNERSHIP

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

Total expenditure was £ 489,000 (2006/07 - £ 636,000) and total income received in the year was £454,000 (2006/07 - £ 569,000), with the balance of £35,000 (2006/07 - £67,000) due to be received next year.

7. COLLECTION FUND

The council has to precept on the collection fund, in the same way as Kent County Council. The actual amount transferred from the collection fund in 2007/08 was £8.596 million in line with the council's original budget. (2006/07 - £8.291 million).

This amount includes £482,000 for Parish Precepts (2006/07 - £462,000) and £0 for the collection fund transfer in 2007/08 for the break-even at 31.3.07. (2006/07 - £0).

8. AUDIT FEES

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

2006/07		2007/08
£' 000	Fees payable to the Audit Commission for	£' 000
117	External audit services carried out by the appointed auditor	113
0	Statutory inspection	0
27	Certification of grant claims and returns	20
144	Total	133

9. LOCAL AUTHORITY (GOODS AND SERVICES) ACT 1970

Income and expenditure under this heading relates to goods, services, use of vehicles and maintenance works supplied by the council for another public body. There were no significant items in 2007/08.

10. PUBLICITY

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

2006/07	Category of Expenditure	2007/08
£' 000		£' 000
150	Recruitment advertising	122
67	Publicity relating to tourism activities	75
33	Publicity and promotions and corporate marketing	39
54	Other advertising and publicity	59
304	TOTAL	295

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

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

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

Expenditure incurred by the city council in 2007/08 and included elsewhere in these accounts totals £141,000 (2006/07 - £137,000) which is well within the limit allowed of £278,000 (2006/07 - £273,000).

2006/07	Category of Expenditure	2007/08
£' 000	<u>GRANTS & CONCESSIONARY RENTS</u>	£' 000
111	Citizens Advice Bureaux	117
23	Whitstable Umbrella	23
3	Canterbury Umbrella	1
137	TOTAL	141

12. OFFICERS' EMOLUMENTS

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

Number of employees 2006/07 As restated	Remuneration Band	Number of Employees 2007/08
8	£ 50,000 - £ 59,999	18
7	£ 60,000 - £ 69,999	5
3	£ 70,000 - £ 79,999	7
2	£ 80,000 - £ 89,999	1
0	£ 90,000 - £ 99,999	2
1	£120,000 - £129,999	0
0	£130,000 - £139,999	1
21	TOTAL	34

Previously the figures had excluded employee pension contributions, but these are now included.

13. MEMBERS' ALLOWANCES

The total of members' allowances paid in the year was £ 394,000. (2006/07 - £365,000)

Figures for PC allowances, travel & subsistence and national insurance are included from 2005/06.

14. RELATED PARTY TRANSACTIONS

The council is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the council or be controlled or influenced by the council. The parties listed are related because of common control by central government and transactions with them are shown below:

	Receipts	Payments	Debtors at year-end	Creditors at year-end
Central Government	£ ' 000	£' 000	£' 000	£' 000
Revenue grants	53,568		1,325	
Capital grants	1,324		560	
Kent County Council - Precept		49,080		0
Kent Police Authority - Precept		6,219		0
Kent & Medway Fire Authority Precept		3,138		0
Kent County Council Pension Fund		3,950		388
[Payment of employer's superannuation contributions in respect of employees]				

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

15. PENSION COSTS

The council participates in the Local Government Pension Scheme administered by Kent County Council. This is a defined benefit statutory scheme, meaning that the council and employees pay contributions into a fund, calculated at a level estimated to balance the pensions liabilities with investment assets. The scheme makes payments in the year to retired officers. The contributions were based on a formal actuarial valuation as at 31 March 2004. Under superannuation regulations, contribution rates are set to meet 100% of the overall liabilities of the fund. There was an increase in the employer's contributions rate stemming from the 2004 valuation, which took effect from 1 April 2005. The latest formal valuation of the fund took place at 31 March 2007. There will be a further increase in the employers's contributions rate stemming from the 2007 valuation, which takes effect from 1 April 2008.

In accordance with FRS17, the council's current service contributions of £ 3,086,300 (2006/07 - £1,908,000), are replaced by Current Service Cost of £3,000,000 (2006/07 - £3,320,000). Past Service Costs are £ 0 (2006/07 - £0). The impact of settlements & curtailments is £30,000 (2006/07 - £10,000).

In addition in-year capitalised payments of £28,000 (2006/07 - £21,100) were made to the fund in respect of early retirement and discretionary added years.

The projected service costs are based on the new LGPS scheme that was introduced on 1 April 2008.

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

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

2006/07	Movement in Pension Deficit during the year.	2007/08
£' 000		£' 000
-55,870	Deficit at beginning of the year	-49,550
-3,320	Current Service cost (charged to consolidated revenue account)	-3,000
0	Past Service cost (charged to consolidated revenue account)	0
3,470	Employer contributions	3,950
320	Contributions in respect of Unfunded Benefits	340
-10	Impact of settlements and curtailments	-30
	Net return on assets:	
5,180	Expected return on employer assets	5,860
-6,560	Interest cost of pension scheme liabilities	-7,150
-1,380		-1,290
	Actuarial gains / losses(-): (in cash and as a % of total scheme assets or liabilities)	
- 530 (0.6%)	Actual less expected return on pension scheme assets	-10,320 (-13.7%)
300 (0.2%)	Experience gains / losses(-) arising on scheme liabilities	100 (0.1%)
	Changes in financial assumptions underlying the present value of the scheme liabilities	18,930
<u>7,470</u>	Total actuarial gain / loss(-) recognised in STRGL	(7.5%)
(5.5% 7,240)		8,710
-49,550	Deficit at end of the year	-40,870

Historic experience gains and losses

	2005/06	2004/05	2003/04
	£' 000	£' 000	£' 000
Difference between expected and actual return on assets.	12,200	2,390	7,511
Value of assets	77,870	61,016	54,190
Percentage of assets	15.7%	3.9%	13.9%
Experience gains / losses(-) on liabilities	-176	-7,310	-23
Total present value of liabilities	133,740	113,360	83,495
Percentage of the total present value of liabilities	-0.1%	-6.4%	0.0%
Actuarial gains / losses(-) recognised in STRGL	-2,506	-22,915	7,488
Total present value of liabilities	133,740	113,360	83,495
Percentage of the total present value of liabilities	-1.9%	-20.2%	9.0%

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

15. PENSIONS (continued)

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

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

The percentage assumptions per annum as at 31 March 2008, (2007 in brackets), are : Price increases 3.6% (3.2), Salary increases 5.1% (4.7), Pension increases 3.6% (3.2), Discount rate 6.9% (5.4).

The discount rate employed for the 2007/08 financial year is again the yield available on long-dated, high quality corporate bonds.

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

L.T.Return at 31 Mar 2007	Assets value at 31 March 2007	Assets (Employer)	Long Term Return at 31 March 2008	Assets value at 31 March 2008
% per annum	£ ' 000		% per annum	£ ' 000
7.8	58,410	Equities	7.7	52,420
4.9	10,350	Bonds	5.7	10,590
5.8	8,510	Property	5.7	8,160
4.9	6,020	Cash	4.8	4,300
7.0	83,290	Total	7.0	75,470

2007	Net Pension Liability as at 31 March	2008
£ ' 000		£ ' 000
83,290	Estimated Employer Assets (A)	75,470
132,840	Total Value of Liabilities (B)	116,340
49,550	Net Pension Liability (B) - (A)	40,870

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

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

16. FIXED ASSETS

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

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

Gross book value at 1 April <small>As restated</small>		Additions	Disposals	Revaluations	Impairments	Transfers	Gross book value at 31 March
£' 000		£' 000	£' 000	£' 000	£' 000	£' 000	£' 000
363	Intangible assets						
	Software licences	32	-9	0	0	0	386
	Tangible assets						
	Operational assets-						
321,202	Council dwellings	4,653	-2,398	0	-9,752	0	313,705
69,303	Other land & buildings	236	0	1,197	-117	-334	70,285
38,711	Infrastructure	848	-9	0	-37	0	39,513
7,721	Vehicles, plant, furniture & equipment	814	-2,098	0	-11	0	6,426
1,769	Community assets	69	0	0	-49	0	1,789
	Non-operational assets-						
76,510	Investment properties	208	-127	7,419	-5,082	320	79,248
281	Under construction	1,656	0	0	0	-281	1,656
7,473	Surplus assets	0	-2,109	268	-15	295	5,912
523,333	TOTAL	8,516	-6,750	8,884	-15,063	0	518,920

Net book value at 1 April <small>As restated</small>		Depreciation					Net book value at 31 March
		Accum. 1 April	During year	Written out on disposals	Written out on revals.	Accum. 31 March	
£' 000		£' 000	£' 000	£' 000	£' 000	£' 000	£' 000
185	Intangible assets						
	Software licences	178	72	-9	0	241	145
	Tangible assets						
	Operational assets-						
321,202	Council dwellings	0	3,137	0	0	3,137	310,568
67,438	Other land & buildings	1,865	1,265	0	-33	3,097	67,188
28,660	Infrastructure	10,051	919	-2	0	10,968	28,545
1,671	Vehicles, plant, furniture & equipment	6,050	715	-2,087	0	4,678	1,748
1,760	Community assets	9	1	0	0	10	1,779
	Non-operational assets -						
76,510	Investment properties	0	0	0	0	0	79,248
281	Under construction	0	0	0	0	0	1,656
7,473	Surplus assets	0	0	0	0	0	5,912
505,180	TOTAL	18,153	6,109	-2,098	-33	22,131	496,789

Note : £1,825k was added to surplus assets gross & net book value at 1 April re the properties that were donated to the housing PFI scheme in 2007/08. (see note 30a)

The main items of capital expenditure were:	£' 000
Council dwellings	4,653
Leisure & culture schemes incl. Marlowe Theatre & Beaney	1,772
Regeneration & planning schemes & historic buildings grants	1,260
Disabled facilities grants, housing assistance and private sector renewal.	1,060
Highways & transport	811
Coast protection	560
Public conveniences refurbishment, play areas & other environment schemes	604
I.T.Developments	327
TOTAL	11,047

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

17. FIXED ASSETS and the CAPITAL FINANCING REQUIREMENT

2006/07	Capital Expenditure and Financing	2007/08	
£ ' 000		£ ' 000	£ ' 000
23,119	Opening Capital Financing Requirement		23,895
	Capital Expenditure in year:		
11,765	Operational assets	6,620	
2,020	Non-operational assets	1,864	
20	Intangible assets	32	
2,240	Deferred charges	2,531	
50	Long term debtors	0	
			11,047
	Sources of Finance		
-3,293	Capital receipts	-2,616	
-5,803	Government & other capital grants	-1,394	
-5,497	Revenue & reserves	-4,610	
-726	Revenue provision for repayment of loans (MRP)	-762	
			-9,382
23,895	Closing Capital Financing Requirement		25,560
	Explanation of movements in year		
0	Increase in underlying need to borrow-supported by govt.financial assistance		0
776	Increase in underlying need to borrow-unsupported by govt.financial assistance		1,665
776	Increase in Capital Financing Requirement		1,665

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

2006/07	Capital Financing Requirement calculation from balance sheet items	2007/08
£ ' 000		£ ' 000
505,180	Fixed Assets	496,789
501	Long term debtors (including soft loans at fair value)	415
96	Financial instruments adjustment account re soft loans	74
505,777		497,278
0	Revaluation Reserve	-8,749
-470,081	Capital Adjustment Account	-451,655
-14,173	Government & other capital grants deferred	-13,738
-155	Deferred capital receipts	-103
21,368		23,033
2,527	Add : item A adjustment	2,527
23,895	Adjusted closing Capital Financing Requirement	25,560

18. DEFERRED CHARGES MOVEMENTS

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

Balance at 1 April	Category	Expd.	Govt. Grants	Write-down	Balance at 31 March
£ ' 000		£' 000	£' 000	£' 000	£' 000
0	Improvement grants	1,017	349	668	0
0	Historic building grants	76	0	76	0
0	Housing association grants	39	0	39	0
0	Other incl. parish council grants	1,399	665	734	0
0	TOTAL	2,531	1,014	1,517	0

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

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

	Date of last valuation	Basis of valuation	Internal Valuer
Operational assets-			
Council dwellings	March 2008	A	Martin Bovingdon , FRICS
Other land & buildings	April 02 - March 2008	B	Martin Bovingdon , FRICS
Non-operational assets	April 02 - March 2008	C	Martin Bovingdon , FRICS

Bases of valuation

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

20. ASSETS HELD

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

2007 As restated	OPERATIONAL ASSETS	2008	2007 As restated	OPERATIONAL ASSETS (Con.)	2008
5,327	COUNCIL DWELLINGS	5,306		VEHICLES , PLANT, FURNITURE & EQUIPMENT	
	LAND				
2	Caravan sites	2	4	Light vans	3
3	Markets	3	1	Boat	1
1	Multi- storey car parks	1	1	Fork lifts	1
37	Surface car parks	37	4	Refuse freighters	0
12	Residents car parks	12		Wave, tide and recording equipment	var.
3	Park & Ride car parks	3	var.	Car park CCTV machines	var.
1	Coach park	1	var.	Lifeline machines	var.
	BUILDINGS		var.	Trade refuse bins	var.
2	Halls	2	var.	Domestic bins	var.
1	Theatre	1	var.	Recycling bins	var.
2	Leisure centres	2			
2	Sports centre	2			
1	Swimming pool	1		COMMUNITY ASSETS	
6	Museums	6	521 ac.	Parks and recreation grounds	521 ac.
4	Civic/divisional offices	4	3	Cemeteries (land only)	3
1	Guildhall / Tower House	1	14	Allotments	14
3	Visitor information centres	3	var.	Museum exhibits and paintings	var.
31	Public conveniences	31	var.	Civic regalia	var.
9	Workshop / Stores	8	10	Historic buildings	10
1	Childrens centre	1			
2	Community centres	2		NON-OPERATIONAL ASSETS	
	INFRASTRUCTURE				
13 Mi.	of coastline, of which	13 Mi.	3	Industrial estates	3
10 Mi.	are council responsibility	10 Mi.	1	Enterprise centres	2
9 Mi.	are protected by defences	9 Mi.	103	Commercially let sites	103
2	Cliff retaining walls	2			
2,700 m.	Riverside walls	2,700 m.	57	Non commercially let sites	56
var.	St.lighting & name plates	var.	1	Harbour (Whitstable)	1
var.	Bus shelters & seats	var.	3	Property awaiting development	3
var.	Pedestrian signs	var.	27	Surplus assets	31
4	Pedestrian areas	4	7	Vacant lands	7
var.	Footbridges	var.	1	Assets under construction	0
61,520 m.	Drains	61,520 m.			

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

21. DEPRECIATION

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

22. COMMITMENTS UNDER CAPITAL CONTRACTS

The following significant capital contracts have been entered into by the council at 31 March 2008 which involve commitments in 2008/09 and beyond:

Scheme	Estimate 2008/09	Estimate 2009/10
	£ ' 000	£ ' 000
None	0	0

23. LONG-TERM DEBTORS

Balance at 1 April <small>As amended</small>	Category	Advances during year	Repaymt. during year	Write- Offs	Balance at 31 March
£ ' 000		£ ' 000	£ ' 000	£ ' 000	£ ' 000
409	Soft Loans (Miscellaneous Loans)				
-96	- Actual amount outstanding	0	50	7	352
	- Adjustment to fair value	0	-23	0	-73
313	Soft Loans - Fair value	0	27	7	279
155	Mortgages	0	52	0	103
33	Housing Act Advances	0	0	0	33
501	TOTAL	0	79	7	415

The true balance for Soft Loans at 31 March 2007 of £409,000 has been reduced downwards by £96,000 (contra an entry in the Financial Instruments adjustment account) to a "fair value" of £313,000 using a discounted cash flow calculation, to reflect the fact that the repayments are interest free.

24. STOCKS IN HAND

31 March 2007	Category	31 March 2008
£ ' 000		£ ' 000
37	Tourist information centres	34
130	Other	127
167	TOTAL	161

25. DEBTORS

31 March 2007 As restated	Category	31 March 2008
£ ' 000		£ ' 000
1,231	Sundry debtors	1,833
2,000	Government departments	5,724
911	Other local authorities	691
2,069	Council taxpayers	2,182
655	NNDR ratepayers	979
698	Housing rents	877
41	Employee loans	11
2,131	Other	2,158
9,736	TOTAL	14,455

Note: The increase in Government departments is mainly due to the increase in the charging authorities payment to the NDR pool from £0 (previously a creditor) to £2,286,000 and the increase due from H.M.Revenues and Customs (including the disputed payment of VAT re the Park & Ride operation) from £282,000 to £931,000. The increase in sundry debtors is mainly due to rent due from Whitefriars Canterbury (from £0 to £347,000). The 31 March 2007 figure for sundry debtors has been restated to exclude £499,000 accrued interest on investments which has been reclassified under investments.

26. PROVISION FOR BAD DEBTS

31 March 2007	Category	31 March 2008
£ ' 000		£ ' 000
1,115	Council taxpayers	1,105
300	NNDR ratepayers	402
678	Housing	584
1,460	{ Benefits	737
	{ Other	462
3,553	TOTAL	3,290

27. CREDITORS

31 March 2007 As restated	Category	31 March 2008
£ ' 000		£ ' 000
3,751	Sundry creditors	
	- Revenue Items	3,018
3,398	- Capital Items	1,863
1,460	Government departments	935
	Other local authorities	
1,931	- Revenue Items	1,623
9	- Capital Items	37
1,148	Council taxpayers	1,250
1,154	NNDR ratepayers	1,586
183	Housing rents	183
426	Other	674
13,460	TOTAL	11,169

The decrease in government departments is mainly due to the decrease in the charging authority's contribution to the government NDR pool from £639,000 to Nil (now a Debtor). The decrease in revenue sundry creditors is mainly due to the decrease in benefits payments (from £859,000 to Nil) and Serco (from £1,211,000 to £721,000). The 31 March 2007 figure for government departments has been restated to exclude £347,000 accrued interest on loans which has now been reclassified under long-term borrowing.

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

28. INVESTMENTS

Value at 31 March 2007 As restated	Rate	Name	Maturity	Cost	Value at 31 March 2008
£ ' 000	%	<u>Internally Managed</u>		£ ' 000	£ ' 000
		Banks			
4,000	5.5000	Butterfield Private Bank	18/12/2007	0	0
0	5.5800	Butterfield Private Bank	17/12/2008	3,000	3,000
2,000	5.5000	Close Brothers Limited	19/12/2007	0	0
0	6.2200	Close Brothers Limited	1/08/2008	1,000	1,000
0	6.2500	Close Brothers Limited	7/08/2008	1,000	1,000
0	5.3800	Close Brothers Limited	15/01/2009	1,000	1,000
0	5.5700	Close Brothers Limited	7/01/2009	1,000	1,000
1,000	5.7600	Clydesdale Bank	25/03/2008	0	0
1,000	5.4400	Glitnir Bank	12/12/2007	0	0
0	5.3600	Glitnir Bank	30/05/2008	2,000	2,000
0	6.0000	Glitnir Bank	13/03/2009	2,000	2,000
4,000	5.5100	Heritable Bank	18/12/2007	0	0
0	6.0600	Heritable Bank	17/12/2008	2,000	2,000
0	5.5600	Heritable Bank	8/01/2009	1,000	1,000
0	5.4500	Heritable Bank	15/01/2009	1,000	1,000
0	5.3700	Kaupthing Singer and Friedlander Bank	22/08/2008	2,000	2,000
		Building Societies			
1,000	5.1400	Chelsea Building Society	05/09/2007	0	0
0	6.2700	Chelsea Building Society	13/08/2008	1,000	1,000
1,000	5.7800	Coventry Building Society	15/01/2008	0	0
1,000	5.3100	Coventry Building Society	15/03/2008	0	0
0	6.2200	Coventry Building Society	7/08/2008	2,000	2,000
1,000	4.9000	Cumberland Building Society	13/06/2007	0	0
1,000	4.8900	Cumberland Building Society	4/05/2007	0	0
0	6.2400	Cumberland Building Society	7/08/2008	2,000	2,000
1,000	5.1600	Derbyshire Building Society	6/08/2007	0	0
0	6.1000	Derbyshire Building Society	17/12/2008	1,000	1,000
2,000	5.1700	EBS Building Society	24/08/2007	0	0
1,000	5.5000	EBS Building Society	18/12/2007	0	0
0	5.4200	EBS Building Society	13/01/2009	1,000	1,000
0	5.4000	Irish Nationwide Building Society	4/02/2009	1,000	1,000
1,000	5.5600	Kent Reliance Building Society	07/01/2008	0	0
0	5.5900	Kent Reliance Building Society	17/12/2008	2,000	2,000
0	5.3500	Norwich & Peterborough Building Society	30/05/2008	1,000	1,000
0	5.1900	Norwich & Peterborough Building Society	30/05/2008	2,000	2,000
1,000	4.9600	Nottingham Building Society	11/05/2007	0	0
1,000	5.7100	Nottingham Building Society	20/03/2008	0	0
1,000	5.7850	Nottingham Building Society	28/03/2008	0	0
1,000	4.9300	Stroud & Swindon Building Society	15/06/2007	0	0
0	5.2000	Stroud & Swindon Building Society	13/06/2008	2,000	2,000
26,000				32,000	32,000
		Debenture Stock			
50	7.5625	A.D.C.(Properties) Ltd.	28/07/2011	50	50
		Money Market Funds			
6,233		Global Treasury Funds plc.		2,308	2,308
0		Alliance & Leicester Commercial Bank		2,000	2,000
		Externally Managed			
8,309		Invesco Asset Management Ltd.		0	0
40,592	TOTAL			36,358	36,358
499	Plus : accrued interest				854
41,091	TOTAL (including accrued interest)				37,212

The investment with Invesco Asset Management Ltd was brought back in-house in August 2007 to improve returns.

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

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

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

2006/07	Movements in the year	Gov't Grants	External cap.conts.	2007/08
£ ' 000 10,674	Balance at 1 April	13,471	702	£ ' 000 14,173
3,946	Grants received-			
	DEFRA grant - recycling & coast protection	3	0	3
176	Other capital grants (applied to fixed assets)			
	-where the asset is being depreciated	93	68	161
277	-where the asset is not being depreciated	216	1	217
15,073		13,783	771	14,554
	Less : Amount written-out to revenue			
623	-where the asset is being depreciated	534	65	599
277	-where the asset is not being depreciated	216	1	217
14,173	Balance at 31 March	13,033	705	13,738

30. DEFERRED CAPITAL RECEIPTS

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

Balance 1 April		Additional Financing	Reduced Financing	Balance 31 March
£ ' 000 155	Mortgages	£ ' 000 0	£ ' 000 52	£ ' 000 103

30a. 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 will generate 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 has donated two properties on a leasehold basis: King Edward Court, Herne Bay, valued at £1,400k and Brymore Road Garages, Canterbury, valued at £425k. The council will retain ownership of the freehold of both properties and will receive a peppercorn rent for the use of the properties.

Under the agreement, the council will 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.

It is proposed that King Edward Court will provide 40 apartments of sheltered accommodation for older people and that seven self-contained apartments will be built on the site of Brymore Road garages for use by people with learning difficulties.

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

31. ANALYSIS OF NET ASSETS EMPLOYED

An analysis of the 'Total Net Worth' ,as shown in the Balance Sheet, by fund is as follows:

31 March 2007			31 March 2008		31 March 2008 Total
FUND			FUND		
General Fund As restated	Housing		General Fund	Housing	
£ ' 000	£ ' 000	BALANCE SHEET ITEM	£ ' 000	£ ' 000	£ ' 000
0	0	Revaluation reserve	8,744	5	8,749
149,601	320,480	Capital adjustment account	142,162	309,493	451,655
-785	-817	Financial instruments adjustment account	-725	-652	-1,377
11,052	1,107	Usable capital receipts reserve	9,607	1,029	10,636
-49,550	0	Pensions reserve	-40,870	0	-40,870
155	0	Deferred capital receipts	103	0	103
0	188	Major repairs reserve	0	188	188
9,084	1,027	Earmarked reserves	9,578	1,244	10,822
2,364	5,689	Revenue Balances	2,491	7,687	10,178
121,921	327,674	TOTAL	131,090	318,994	450,084

449,595

The element of the General Fund net worth at 31 March 2008 that relates to trading operations is £76,561,000. This includes £75,601,000 in relation to Commercial Property and Industrial Estates which generate rental income of £ 3,743,600 (2006/07 - £ 3,640,800) under operating lease arrangements.

32. OPERATING LEASES

The authority acquires some equipment (for car parks, sports & phone system) through operating leases. The amount paid under these arrangements in 2007/08 was £129,000 (2006/07 - £146,000). The future cash payments required under these leases are:

Details of period	Commitment in	
	2008/09	2009/10 onwards
Those operating leases in which the commitment expires within that year	£ ' 000 0	£ ' 000 0
expires in the second to fifth years from the balance sheet date	129	135
expires over five years from the balance sheet date	0	0
TOTAL	129	135

33. ASSETS HELD UNDER FINANCE LEASES

The original total capital value of finance lease agreements at 31 March 2008 is approximately £ 193,000 of which the outstanding obligations amount to only £ 1,000. Finance lease payments for the year amounted to £ 200 (2006/07 - £ 200).

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

34. POST BALANCE SHEET EVENTS & AUTHORISATION FOR ISSUE OF STATEMENT OF ACCOUNTS

The statement of accounts was authorised for issue on 30 June 2008 by the Director of Corporate Services. The council has considered events following the balance sheet date and considers that no disclosure is required.

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

35. SUMMARY INTRODUCTION TO THE DETAIL OF MOVEMENTS ON RESERVES

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

Reserve	Balance 1 April 2007 £ ' 000	Net Movement in Year £ ' 000	Balance 31 March 2008 £ ' 000	Purpose of Reserve	Further Detail of Movements
Revaluation Reserve	0	8,749	8,749	Store of gains on revaluation of fixed assets, not yet realised through sales.	(35a) below.
Capital Adjustment Account	470,081	-18,426	451,655	Store of capital resources set aside to meet past expenditure	(35c) below.
Financial Instruments Adjustment Account	-1,602	225	-1,377	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments	(35b) below.
Usable Capital Receipts	12,159	-1,523	10,636	Proceeds of fixed asset sales available to meet future capital investment.	(35d) below.
Pensions Reserve	-49,550	8,680	-40,870	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 15 to the Core Financial Statements, p.22.
Deferred Capital Receipts	155	-52	103	Represents principal outstanding from mortgages.	Note 30 to the Core Financial Statements, p.29.
Major Repairs Reserve	188	0	188	Resources available to meet capital investment in council housing.	HRA Statements, page 44.
Earmarked Reserves	10,111	711	10,822	Reserves earmarked for specific purposes.	(35e) below.
Revenue Balances - General Fund	2,188	154	2,342	Resources available to meet future running costs for non-housing services.	Statement of Movement on the General Fund Balance, page 14.
Housing Revenue Account	5,689	1,998	7,687	Resources available to meet future running costs for council houses.	HRA Statements, page 42.
Collection Fund	176	-27	149	Resources available to meet future precept payments.	Collection Fund Statements, page 46.
Total	449,595	489	450,084		

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

MOVEMENTS ON RESERVES (continued)

35a. REVALUATION RESERVE

This is a new reserve, which was created with a nil balance at 1 April 2007, which shows the net gain (if any) from revaluations made after 1 April 2007 i.e. increases in value as a result of inflation or other factors. It does not represent resources available to support capital financing. There are no comparatives for 2006/07 as this is a new reserve.

	REVALUATION RESERVE	General Fund	Housing	2007/08 Total
		£' 000	£' 000	£' 000
	Increase in revaluations of fixed assets in year	8,879	5	8,884
	Depreciation written out on revaluations of fixed assets	33	0	33
	Total increase in unrealised value of fixed assets in the year. (see STRGL page 15)	8,912	5	8,917
	Transfers to Capital Adjustment Account (note 35c) -			
	Write-out the revaluation gains previously recognised for assets disposed of in current year.	-137	0	-137
	For additional depreciation following revaluations.	-31	0	-31
	Total movement in reserve in the year.	8,744	5	8,749
	Balance at 1 April	0	0	0
	Balance at 31 March	8,744	5	8,749

35b. FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

This is a new reserve, which was created at 1 April 2007, which provides a balancing mechanism between the different rates at which gains and losses (such as premiums on the early repayment of debt and loans made at less than market value) are recognised under the SORP and are required by statute to be met from the General Fund. This reserve does not represent resources available to the council.

31 March 2007	Category	General Fund	Housing	2007/08 Total
As restated				
£ ' 000				£ ' 000
857	Premiums paid on premature redemption of PWLB loans			
	- HRA share		683	683
689	- General fund share	652		652
1,546	Total (This element was previously known as Deferred Premiums)	652	683	1,335
-40	Discounts received on premature redemption of PWLB loans (This was previously known as Deferred Discounts)		-31	-31
1,506		652	652	1,304
96	Soft Loans (difference between actual value & fair value)	73	0	73
1,602	TOTAL	725	652	1,377

There have been a number of debt restructures between 1998/99 and 2006/07 which have resulted in premiums on the early repayment of debt, which are being spread over the life of the replacement or original loans. (whichever was appropriate) These have now been removed from the face of the balance sheet and instead included in the above account. In 2007/08 the comparatively low long-term PWLB fixed rates presented the opportunity to change some of the higher rate borrowings into lower fixed rates. The council therefore redeemed £250k of borrowing at 10.25% and £2 million at 4.8% and replaced these with a loan at 4.55%. The premium payable on the redemption of the first loan of £64,507 was offset against the discount of £67,116 receivable against the second. In view of the small net credit, both items were taken in full to the Income and Expenditure account in the year. The overall cash saving is £117,000 (after taking into account future inflation).

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

MOVEMENTS ON RESERVES (continued)

35c. CAPITAL ADJUSTMENT ACCOUNT

This is also a new reserve, which reflects the timing differences between the historical cost of fixed assets consumed, and the capital financing set aside to pay for them. It was created at 1 April 2007 from the total of the previous Fixed Asset Restatement Account (385,924k) and the previous Capital Financing Account (82,332k). In addition 1,825k was added contra surplus assets used for the housing PFI scheme.(see note 30a)

The account accumulates (on the debit side) the write-down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure.

There are no comparatives for 2006/07 as this is a new reserve.

CAPITAL ADJUSTMENT ACCOUNT	General Fund	Housing	2007/08 Total
Debits relating to the historical cost of acquiring, creating or enhancing fixed assets, over the life of those assets.	£' 000	£' 000	£' 000
Depreciation of fixed assets in year	-2,939	-3,170	-6,109
Impairment of fixed assets (revaluations downwards)	-4,960	-5,429	-10,389
Deficit on revaluation and restatement of current year transactions	-351	-4,323	-4,674
Additional depreciation transferred from Revaluation Reserve to Capital Adjustment a/c after revaluations	31	0	31
Debits relating to disposals.			
Amounts written off fixed assets balances for disposals in current year.	-4,352	-2,398	-6,750
Less depreciation written out on disposals in current year	2,098	0	2,098
Less : Transfer from Revaluation Reserve to Capital Adjustment account following disposal.	137	0	137
Debits relating to the historical cost of deferred charges.			
Write down of deferred charges	-1,517	0	-1,517
Repayments of soft loans and housing act advances.	-58	0	-58
	-11,911	-15,320	-27,231
Credits relating to resources set aside to finance capital expenditure.			
- capital expenditure financed from capital receipts	2,616	0	2,616
- capital expenditure financed from major repairs reserve	0	3,709	3,709
- capital expenditure financed from revenue	281	621	902
- government grants-deferred written-out to revenue	813	3	816
- minimum revenue provision	762	0	762
Total credits from resources set aside to finance capital.	4,472	4,333	8,805
Movement in the year.	-7,439	-10,987	-18,426
Balance at 1 April	149,601	320,480	470,081
Balance at 31 March	142,162	309,493	451,655

The opening balance at 1 April also includes a transfer of £233k from General Fund to Housing re financing from the Tenterden Drive reserve which was a housing reserve.

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

MOVEMENTS ON RESERVES (continued)

35d. USABLE CAPITAL RECEIPTS RESERVE

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

2006/07 Total	Movements in realised capital resources	General Housing		2007/08 Total
		Fund		
£' 000		£' 000	£' 000	£' 000
13,970	Capital receipts received in the year (gross)	459	2,399	2,858
-1,592	Less: Contribution to housing pooled capital receipts	0	-1,765	-1,765
-3,293	Less: Receipts used to finance new capital investment	-1,904	-712	-2,616
9,085	Total increase / (decrease) in realised capital resources in the year	-1,445	-78	-1,523
3,074	Balance at 1 April	11,052	1,107	12,159
12,159	Balance at 31 March	9,607	1,029	10,636

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

35e. EARMARKED RESERVES

Balance at 1 April	Name of Reserve	Note	<-----Additions----->			<-----Reductions----->			Balance at 31 March
			Interest Receipts	Transfer from revenue	Receipts in year	Transfers between reserves	Transfer to revenue	Payments in year	
£' 000			£' 000	£' 000	£' 000	£' 000	£' 000	£' 000	£' 000
1,407	LABGI reserve	(a)		972			1000		1,379
150	LAMP project reserve	(b)		0			99		51
307	Early retirement	(c)		142			241		208
470	Computer/equipment	(d)	13	64				97	450
397	Insurance reserve	(e)	22				25		394
304	Liability insurance	(f)	12					20	296
207	NDR reserve	(g)					60		147
262	Open spaces maintenance	(h)					17		245
480	Benefits grant income	(i)					122		358
638	Benefits overpayments	(j)					217		421
99	Kingsmead interest	(k)	555						654
476	External interest	(l)	27						503
127	Local plan inquiry	(m)	7	77					211
400	Subsidence reserve	(n)		200					600
461	CPO Lodgements resv	(o)							461
135	St.Aug.Hosp.Site Vill.Hall	(p)						135	0
45	Commuted sums	(q)			46		3	37	51
1,192	Section 106 receipts	(r)	37	0	441		38	235	1,397
0	Park & Ride VAT reserve	(s)		136					136
140	CCTV Reserve	(t)		52				14	178
142	Office equipment	(u)	7	46				10	185
114	Regeneration	(v)		77					191
169	Out of date cheque reserve	(w)			11				180
123	Planning delivery grant	(x)		167				89	201
50	Car park reserve	(y)		103					153
1,816	Other reserves		11	449	122	0	416	210	1,772
10,111	TOTAL RESERVES		691	2,485	620	0	2,238	847	10,822

Notes:

- (a) The Local Authority Business Growth Incentive (LABGI) reserve holds the LABGI grant normally received in February each year to be used in the following year's budget plus the balance of grant received in February 2007. This is assessed on the amount of growth in the rateable value of businesses in the area above a standard increase. In order to cushion the budget impact, because the grant is to end in 2008/09, the balance of the reserve will be credited to revenue over the next four years, at a reduced level each year.
- (b) The LAMP project reserve holds the amount of additional income raised from land charges to pay for the new computerised land charges system (before paying over to the contractors)

35e. EARMARKED RESERVES (continued)

- (c) The Early retirement reserve was set up in 1999/2000 to finance the additional payments required by the Kent superannuation fund as a result of early retirement following the council's restructure.
- (d) The Computer/equipment reserve was created in 1995/96 to finance computers and equipment which need replacing.
- (e) The Insurance reserve is used to meet claims on the council for which external insurances have not been effected. This reserve covers three broad areas of insurable risks:
- (i) Professional indemnity; (covers losses resulting from professional negligence)
 - (ii) All risks cover for equipment under £5,000 in value
 - (iii) Sold council houses - latent defects (i.e. defects discovered at a later date which could not reasonably have been identified at the time of sale).
- The current balance on the reserve held for each risk is roughly in the proportions 70%, 10%, 20%, so e.g. approximately £280,000 is held to cover professional indemnity (which could involve major sums).
- (f) The Liability insurance reserve covers public liability claims under £5,000. (Claims over £5,000 being covered by external insurance). Claims tend to take many years before settlement is agreed, therefore the balance has to cover prior year outstanding claims and future liabilities.
- (g) The NDR reserve was created to cover back-dated assessments of NDR on council properties on which NDR is payable, but have not yet been assessed by the valuation office. Now that the liability on some properties has passed the statutory period, most of this reserve is being transferred back to revenue.
- (h) The Open spaces maintenance reserve holds the balance from commuted payments from developers (under section 106 agreements) based on 20 years maintenance costs of spaces taken over by the council. The balance for each development is transferred to revenue over 20 years.
- (i) The Benefits grant income reserve holds additional housing benefit subsidy income arising from the final claim being greater than assumed in the accounts. The balance is being transferred back to revenue.
- (j) The Benefits overpayment reserve was created in 2004/05 to hold the excess of overpayments which have been identified by the benefits computer system compared with the balance in the accounts. The balance is being credited back to revenue over a number of years, starting from 2006/07.
- (k) The Kingsmead interest reserve holds the interest earned on the Kingsmead and other major capital receipts in order to fund the revenue budget from 2009/10, as agreed at full council 21 Feb 2008.
- (l) The External interest reserve was created in 1997/98 from the existing premature debt repayment reserve and was augmented by the investment interest earned above the original forecast in later years due to good fund management performance. It can be used both to cover any premium payable on the premature repayment of debt, to reduce future interest payments on fixed interest loans, or initially to cover any poor performance by Fund Managers. Now that Fund Managers no longer hold the council's money, the balance is being transferred back to revenue over a number of years.
- (m) The local plan enquiry reserve evens out the impact of costs which arise on a periodic basis for the local plan enquiry.
- (n) The subsidence reserve was created in 2005/06 to cover liabilities arising from subsidence of housing stock properties now that they are not covered within the council's insurance policy.
- (o) The CPO lodgements reserve was created in 2006/07 to hold amounts recovered from the land registry plus interest, 12 years after the original deposit was made. The balance is being credited back to revenue over four years from 2008/09.
- (p) The St. Augustine's Hospital site village hall reserve held receipts from the developer in 1998/99 and 2003/04 which have all now been paid out.
- (q) This reserve holds various commuted sums from developers until their application.
- (r) This reserve holds the balance of section 106 planning receipts which have been received from developers until they are applied to the purpose for which they were received.
- (s) This was created in 2007/08 to make a provision of a % of the VAT liability that H.M. Revenues and Customs deem to be due on park & ride income, on the basis that it is purely a parking fee and therefore subject to VAT. This is being strongly contested and we anticipate a favourable outcome as our tax advisors consider this supply should be classed as zero-rated transport.
- (t) This reserve is used to finance CCTV equipment.
- (u) This reserve funds the annual programme of office equipment renewals used to finance CCTV equipment.
- (v) This reserve was created in 2005/06 to be used for regeneration projects.
- (w) This reserve was created in 2006/07 by transferring from a creditor provision. The balance will be transferred back to revenue if cheques are still unclaimed after a few years.
- (x) This reserve holds the balance of planning delivery grant, not used in the year of receipt, for future projects and ongoing commitments.
- (y) This reserve was created in the 2006/07 budget strategy to finance work on the council's car parks.

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

FINANCIAL INSTRUMENTS

36. FINANCIAL INSTRUMENTS BALANCE

The Balance Sheet has potentially four balances relating to financial instruments:

- i) Long-term investments. ii) Current assets - investments. iii) Current liabilities - borrowing repayable on demand or in less than 12 months. iv) Borrowing repayable within a period in excess of 12 months.

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments.

31 March 2007			31 March 2008	
Long-Term	Current		Long-Term	Current
£' 000	£' 000		£' 000	£' 000
21,064	3,051	Borrowings		
0	0	Financial liabilities at amortised cost	27,018	7
		Financial liabilities at fair value through profit and loss	0	0
21,064	3,051	Total Borrowings	27,018	7
£' 000	£' 000	Investments	£' 000	£' 000
0	32,782	Loans and receivables	0	37,212
0	8,309	Available-for-sale financial assets	0	0
0	41,091	Total Investments	0	37,212

37. FINANCIAL INSTRUMENTS GAINS / LOSSES

The gains and losses recognised in the Income and Expenditure Accounts and STRGL in relation to financial instruments are made up as follows:

	Financial Liabilities	Financial Assets	
	Liabilities measured at amortised cost	Loans and receivables	Available-for-sale assets
	£' 000	£' 000	£' 000
Interest payable and similar charges			
Interest payable	-1,151	0	0
Losses on derecognition	0	0	0
Interest payable and similar charges	-1,151	0	0
Interest and investment income			
Interest income	0	2,607	0
Gains on derecognition	0	0	0
Interest and investment income	0	2,607	0
Surplus arising on revaluation of financial assets	0	0	0
Net gain / loss (-) for the year	-1,151	2,607	0

38. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES CARRIED AT AMORTISED COST

Financial liabilities and financial assets represented by loans and receivables 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 2008 were between 4.44% and 4.68%, depending on the maturity date of the loan.

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

38. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES CARRIED AT AMORTISED COST (continued)

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 (for 31 March 2008 calculated by Sector, our treasury advisors) are as follows:

31 March 2007			31 March 2008	
Carrying amount	Fair value		Carrying amount	Fair value
£' 000	£' 000	Borrowings	£' 000	£' 000
24,097	24,797	Financial liabilities - PWLB Loans	27,008	28,010
11	11	Financial liabilities - Other bonds and mortgages	10	10
<p>The fair value is higher than the carrying amount because although the council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the rates available for similar loans at the Balance Sheet date, there are still three old loans totalling £2.5m with rates of 7.625%, 10.25% and 10.5% which account for a fair value of £1,979k higher than the carrying amount. Other than these three, the commitment to pay interest below current market rates reduces the amount that the authority would have to pay if the lender requested or agreed to early repayments of the loans. (It should be noted that the council's average interest payable rate was only 4.74% in 2007/08 compared to 9.22% in 2002/03).</p>				
£' 000	£' 000	Investments	£' 000	£' 000
26,499	see below	Loans and receivables - Banks and Building Societies	32,854	32,834
6,283		Loans and receivables - Call accounts	4,358	4,358
8,309		Available-for-sale financial assets - Externally Managed (Invesco Asset Management Limited)	0	0
41,091			37,212	37,192
<p>The fair value is slightly less than the carrying amount because the authority's portfolio of investments includes a number of fixed rate investments where the interest rate receivable is slightly lower than the rates available for similar investments at the Balance Sheet date. This guarantee to receive interest below current market rates reduces the amount that the council would receive if it agreed to early repayments of the investments. Both the carrying amount and fair value include the accrued interest due. The information re fair value of investments at 31 March 2007 is not available.</p>				

39. 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) 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 carried out by the Corporate and Treasury Manager in consultation with the Head of Finance, under policies approved by the council in the annual treasury management strategy.

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

39. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

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 or with building societies with more than £1 billion of assets. The lending limits to any one institution are based on the assessed risks and vary between £3million and £5million (as set out in the Executive report - 2 November 2006).

The council's historical experience of default is nil and the expectation of any future default is assessed as minimal and therefore the council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

Liquidity risk

As the council has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk could have been that it would be bound to replace a significant proportion of its borrowings at a time of unfavourable interest rates. However all loans now have a maturity of more than 10 years and the strategy is to spread the maturity profile of these borrowings.

The maturity analysis of financial liabilities is as follows:

31 March 2007 <small>As restated</small>	Source of loan	Range of interest rates payable (%)	31 March 2008
£ ' 000			£ ' 000
21,053	Public Works Loan Board	3.80 - 10.50	27,008 (incl.interest)
11	Other bonds & mortgages	5.625 - 5.750	10
21,064	TOTAL : LONG-TERM BORROWING		27,018
£ ' 000	An analysis of loans by maturity is:		£ ' 000
0	Maturing in 1-2 years		0
0	Maturing in 2-5 years		0
261	Maturing in 5-10 years		0
20,803	Maturing in over 10 years (26,760 + accrued interest 258)		27,018
21,064	TOTAL : LONG-TERM BORROWING		27,018

The 31 March 2007 figure has been restated to include £303,000 accrued interest which was previously classified as a creditor.

Market risk

Interest rate risk

The council is potentially most affected by interest rate risk with regard to any borrowings or investments at variable interest rates, however the council does not currently have any such financial instruments.

The council's borrowings are fixed at periods in excess of 10 years and therefore the market rate risk re borrowings is considered to be negligible. The council's investments are held at fixed rates and are due to mature within 1 year. There is some interest rate risk with regard to the reinvestment of these deposits when they mature, if interest rates should fall.

The council obtained £2,592,000 investment interest on its investments in 2007/08 - an average interest rate of 5.70%. If the average rate had been 1% less (i.e. 4.7%) then the council would have received £455,000 less income.

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

NOTES TO CASH FLOW STATEMENT

40. RECONCILIATION OF REVENUE SURPLUS TO REVENUE ACTIVITIES NET CASHFLOW

2006/07		2007/08	
£' 000		£' 000	£' 000
	Surplus (-) / Deficit for the year		
-8,199	General Fund Income and Expenditure Account		17,111
141	Collection Fund		27
-8,058			17,138
	Non-Cash Transactions		
-76	Less : Amortisation of intangible fixed assets.	-72	
-2,445	Less : Depreciation of fixed assets (general fund)	-2,867	
0	Less : Impairment of fixed assets (general fund)	-5,312	
-3,244	Less : Depreciation and Impairment of HRA assets	-12,922	
900	Add : Government grants deferred and other capital contributions w/out to revenue	816	
-837	Less : Deferred charges written down to be financed from capital resources	-1,517	
	Less : Repayments of Soft Loans & Housing Act Advances from capital resources.	-59	
6,578	Net gain / loss(-) on sale of fixed assets	-1,844	
	Difference between amounts debited/credited to the I&E a/c and amounts payable/receivable to be recognised under statutory provisions re soft loans and premiums on the early repayment of debt.	225	
-4,710	Net charges made for retirement benefits in accordance with FRS17.	-4,320	
3,790	Employer's contributions payable to the Kent Pension Fund & retirement benefits payable direct to pensioners.	4,290	
-44			-23,582
	Items classified in another part of cash flow statement		
-1,355	Add: Interest paid	-1,242	
1,420	Less: Interest received	2,252	
DR 65			1,010
-8,037			-5,434
	Items on an accruals basis		
21	Add/less : Increase/decrease in stocks	-6	
-3,439	Add/less : Increase/decrease in debtors (net of bad debt provision)	5,337	
34	Add/less : Increase/decrease in payments in advance	243	
326	Add/less : Increase/decrease in deferred premiums	-201	
-2,088	Add/less : Decrease/increase in creditors	2,380	
579	Add/less : Decrease/increase in deposits	-231	
1,015	Add/less : Accrual of capital grants & capital income	44	
-3,552			7,566
-11,589	Revenue Activities Net Cash Flow		2,132

NOTES TO THE CORE FINANCIAL STATEMENTS (continued)

NOTES TO CASH FLOW STATEMENT (continued)

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

2006/07		Balance 1.4.07	Balance 31.3.08	Borrowing category transfers	Movement in the year
£' 000		£' 000	£' 000	£' 000	£' 000
14,726	Short-term investments	40,592	36,358	0	-4,234
-5,999	Long-term borrowing	-20,761	-26,760	0	-5,999
7,149	Short-term borrowing	-3,007	-7	0	3,000

For details of short-term investments see note 28.

For details of long-term borrowing see note 39.

42. INCREASE / DECREASE IN CASH

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

2006/07		Balance 1.4.07	Balance 31.3.08	Movement in the year
£' 000		£' 000	£' 000	£' 000
458	Bank overdraft	-1,327	-1,935	-608
12	Cash in hand	419	388	-31
470				-639

43. ANALYSIS OF OTHER GOVERNMENT GRANTS (REVENUE ACTIVITIES)

2006/07		2007/08
£' 000		£' 000
1,467	Housing / council tax benefit administration	1,190
762	Public safety, recycling, improvement & other grants	834
726	Sure Start grant	601
1,407	Local authority business growth incentive grant (LABGI)	972
202	NNDR collection costs	203
293	Planning delivery grant	372
4,857		4,172

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

44. ANALYSIS OF CAPITAL GRANTS

2006/07		2007/08
£' 000		£' 000
339	Specified grant (re Housing improvement grants)	303
0	Implementing electronic government grant (IEG)	0
4,824	DEFRA grants - Coast protection & recycling	602
997	Sure Start grant	187
657	Others	347
6,817		1,439

HOUSING REVENUE ACCOUNT INCOME & EXPENDITURE ACCOUNT

2006/07		2007/08
£' 000	INCOME	£' 000
17,197	Dwelling rents (gross) (Note 8)	18,433
436	Non-dwelling rents (gross)	461
105	Leaseholder's charges for services and facilities	116
1,209	Other charges for services and facilities	1,347
18,947	TOTAL INCOME	20,357
	EXPENDITURE	
3,694	Repairs and maintenance	4,142
3,227	Supervision and management -General management	3,212
1,485	-Special services	1,651
297	Rents, council tax and insurance	272
3,533	Negative housing revenue account subsidy payable (Note 9)	4,138
3,244	Depreciation charges (Note 6)	3,170
0	Impairment of fixed assets (Note 7)	9,752
52	Debt Management Expenses	52
56	Increase / decrease (-) in provision for bad or doubtful debts	-7
15,588	TOTAL EXPENDITURE	26,382
-3,359	NET COST OF HRA SERVICES per Income and Expenditure Account	6,025
113	HRA services share of Corporate and Democratic Core	116
-3,246	NET COST OF HRA SERVICES	6,141
241	Interest payable	237
189	Premium on repurchase of borrowing	165
-14	Interest and investment income - Mortgages	-9
-266	Notional cash balances	-381
226	Pensions interest cost and expected return on pension assets (N11)	211
-2,870	SURPLUS(-) / DEFICIT FOR THE YEAR ON HRA SERVICES	6,364

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

1) Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed. 2) Retirement benefits are charged as amounts become payable to pensions funds and pensioners, rather than as future benefits are earned. 3) Impairment losses of £9,752k from the general fall in prices and the assessed increase in council house values following capital works was less than actual capital expenditure. These are all reversed out in the following statement.

STATEMENT OF MOVEMENT ON THE HRA BALANCE for the YEAR ENDED 31 MARCH 2008

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.

2006/07 Net Expenditure		2007/08 Net Expenditure
£' 000 -2,870	Surplus (-) / Deficit for the year on the HRA Income and Expenditure Account	£' 000 6,364
1,910	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year. (see table below)	-8,362
-960	Increase (-) / Decrease in HRA Balance for the year	-1,998
-4,729	HOUSING REVENUE ACCOUNT BALANCE B/F AT 1 APRIL	-5,689
-5,689	HOUSING REVENUE ACCOUNT BALANCE C/F AT 31 MARCH	-7,687

NOTE TO THE STATEMENT OF MOVEMENT ON THE HRA BALANCE

2006/07 Net Expenditure		2007/08 Net Expenditure
	Items included in the HRA Income and Expenditure Account, but <u>excluded</u> from the movement on the HRA Balance for the year.	
£' 000		£' 000
0	Reversal of impairment losses (Note 7)	-9,752
3	Government grants deferred w/out to revenue	3
-611	Net charges made for retirement benefits in accordance with FRS17 (Note 11)	-435
-608		-10,184
	Items <u>not</u> included in the HRA Income and Expenditure Account, but <u>included</u> in the movement on the HRA Balance for the year.	
427	Transfer to/from (-) major repairs reserve (Note 3)	539
250	Contribution to HRA I.T./Subsidence Reserve	200
451	Employer's contributions payable to Kent Pension Fund and retirement benefits payable direct to pensioners.	463
1,390	Capital expenditure funded by the HRA (Note 4)	620
2,518		1,822
1,910	Net additional amount required by statute to be debited or (credited) to the HRA balance for the year.	-8,362

NOTES TO THE HOUSING REVENUE ACCOUNT

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

1. HOUSING STOCK

i) At 31 March 2008, the council was responsible for managing 5,298 units of accommodation:

Type of Property	Number of Bedrooms				Total
	One	Two	Three	Four +	
Flats-Low Rise	1,151	317	5	1	1,474
Flats-Medium Rise	292	350	65	4	711
Flats-High Rise	64	69	0	0	133
Houses and bungalows	354	951	1,542	86	2,933
Hostel places	47	0	0	0	47
Totals	1,908	1,687	1,612	91	5,298

Plus 8 Basic Homes (shared ownership dwellings)

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

	Stock movements				Stock at 31/03/08
	Stock at 01/04/07	Sales	Transfers	Additions	
Flats	2,321	-3	0	0	2,318
Houses and bungalows	2,951	-18	0	0	2,933
Hostels	47	0	0	0	47
Totals	5,319	-21	0	0	5,298

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

2007	Gross Balance Sheet Value	2008
£' 000		£' 000
321,202	Operational assets	
1,797	- dwellings	313,705
195	- garages	1,802
	- community centre	195
978	Non-operational assets	
1,127	- land	978
	- shops	1,127
325,299	TOTAL	317,807

2. VACANT POSSESSION VALUE

The vacant possession value of dwellings within the HRA as at 1 April was £696,978,000. For the balance sheet, the figure has been reduced to 45% i.e. £313,705,000 to show existing use value as social housing, reflecting the economic cost of providing social housing.

3. MAJOR REPAIRS RESERVE

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

NOTES TO THE HOUSING REVENUE ACCOUNT (con)

3. MAJOR REPAIRS RESERVE (continued)

The housing subsidy for 2007/08 includes a grant in the form of a Major Repairs Allowance (MRA) to resource the Major Repairs Reserve. The MRA is ring fenced for capital expenditure of a housing nature. If any allowance is unspent in one year, it can be carried forward to finance capital expenditure in future years within the Major Repairs Reserve. The balance available for allocation in future years at 31 March 2008 is £188,000.

2006/07	Major Repairs Reserve	2007/08
£' 000		£' 000
188	Balance at 1 April	188
3,244	Transfer from capital financing reserve (HRA depreciation)	3,170
	Transfer to(-)/from HRA	
	re depreciation on non-dwellings	-33
427	re excess(-)/shortfall of dwellings depreciation over MRA	572
-3,671	Less: expenditure on dwellings financed from this reserve	-3,709
188	Balance at 31 March	188

4. SUMMARY OF CAPITAL FINANCING

Capital expenditure of £4,653,000 was spent on housing assets (all on dwellings) within the HRA during 2007/08. This was financed as follows:

2006/07	Capital financing of HRA expenditure	2007/08
£' 000		£' 000
3,671	Major Repairs Reserve	3,709
1,390	Revenue	620
324	Borrowing	324
0	Capital receipts	0
234	Capital Grant	0
5,619	Total	4,653

5. SUMMARY OF CAPITAL RECEIPTS

Housing capital receipts during 2007/08 were as follows:

2006/07	Housing capital receipts	2007/08
£' 000		£' 000
2,034	Dwelling sales (net of administration deduction)	2,333
47	Land sales	0
110	Mortgage repayments and discounts repaid	65
2,191	Total	2,398

6. DEPRECIATION OF FIXED ASSETS

Depreciation of £3,170,000 was charged to the HRA. This comprises £3,137,000 for dwellings and £33,000 for non dwelling housing assets.

7. IMPAIRMENT OF FIXED ASSETS

The council's Valuation Officer, a member of FRICS, has advised that there were no specific impairments during the year, however there was an overall impairment of £9,752,000 made up of £5,429,000 from an assessed overall decrease in housing stock values and £4,323,000 being the difference between £4,653,000 housing capital expenditure and the assessed increase in effective value of only £330,000 (after applying the 45% factor as in note 2 above).

NOTES TO THE HOUSING REVENUE ACCOUNT (con)

8. DWELLING RENTS (GROSS)

This is the total rent income for dwellings for the year after allowance is made for voids etc. Average rents were £ 65.78 per week in 2007/08 (£ 65.08 in 2006/07). Rents were increased on 1st April 2007 by an average of £0.70 per week.

9. HOUSING SUBSIDY

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

2006/07	Housing subsidy	2007/08
£' 000		£' 000
7,943	Management and Maintenance Allowance	8,084
3,671	Major Repairs Allowance	3,709
994	Charges for Capital	911
0	Rent rebates	0
12,608		12,704
-16,125	Notional Rent	-16,692
-16	Interest on Receipts	-12
-3,533	Sub-Total re Current Year's Subsidy	-4,000
0	Adjustment re Previous Years Subsidy	-138
-3,533	Total	-4,138

10. RENT ARREARS

The figures are as follows:

2006/07		2007/08
£' 000		£' 000
698	Gross Rent Arrears at 31 March	877
-183	Prepayments of Rent	-183
515	Net Rent Arrears at 31 March	694
659	Provision for bad debts at 31 March	565
%		%
4.1	Gross rent arrears as a proportion of gross dwelling rent income	4.8

The Gross Rent Arrears at 31 March 2008 includes £92,000 relating to the 53rd rent week which started on 31st March and re-occurs every few years.

11. HRA SHARE OF PENSIONS

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

2006/07		2007/08
£' 000		£' 000
231	HRA share of current service cost less employer contributions	-14
-297	HRA share of past service cost less employer contributions	-225
-66	Adjustment to "General management" line of HRA statement	-239
226	HRA share of pensions interest cost and expected return on	211
160	pensions assets	-28
-611	Net charges made for retirement benefits in accordance with FRS17	-435
451	Employer's contributions payable to the Kent Pension Fund and	463
-160	retirement benefits payable direct to pensioners	28
0	HRA share of contributions to/from Pensions Reserve	0
	Net effect on HRA balance	

THE COLLECTION FUND

INCOME AND EXPENDITURE ACCOUNT

2006/07		Note	2007/08
£ ' 000	INCOME		£ ' 000
55,903	Council Tax (net of benefits & transitional relief)		59,254
7,864	Transfers from General Fund - Council Tax benefits		7,843
40,162	Income from business ratepayers	4	40,806
103,929			107,903
	EXPENDITURE		
	Precepts and demands:	2	
46,490	- Kent County Council		49,080
5,889	- Kent Police Authority		6,219
3,006	- Kent & Medway Fire & Rescue Authority		3,138
8,291	- Canterbury City Council (incl. Parishes)		8,596
63,676	Business rate	4	67,033
39,960	- Payment to national pool		40,603
202	- Costs of collection		203
	Bad and doubtful debts		
-183	- Write-offs		-101
415	- Provisions		192
	Contributions		
0	- From previous year's Collection Fund surplus		0
104,070			107,930
141	NET FUND SURPLUS (-) / DEFICIT FOR YEAR		27
317	COLLECTION FUND BALANCE AT 1 APRIL		176
176	COLLECTION FUND BALANCE AT 31 MARCH	2	149

NOTES TO THE COLLECTION FUND ACCOUNTS

1. GENERAL NOTE

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

2. "NEW" COLLECTION FUND ELEMENT

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

2006/07		2007/08
£ ' 000		£ ' 000
63,676	Precepts (excluding distribution of previous year's deficit)	67,033
232	Write-Off Provision	91
63,908		67,124
-63,767	Council tax (incl. benefits & subsidy scheme)	-67,097
141	Surplus (-) / Deficit	27
0	Precepts - Distribution of previous year's surplus / deficit(-)	0
-317	Balance at 1 April	-176
-176	Balance at 31 March	-149

An estimated break-even position at 31 March 2006 was forecast and notified to KCC, KPA and KMF & RA in January 2006. A break-even position at 31 March 2007 was notified to all the above in December 2006. Similarly a break-even position at 31 March 2008 was notified to all the above in December 2007.

NOTES TO THE COLLECTION FUND ACCOUNTS (continued)

3. COUNCIL TAX

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

2006/07 Band D Equivalent Dwellings	Band	Estimated Number of Taxable Properties after effect of discounts	Ratio	2007/08 Band D Equivalent Dwellings
3,007	A	4,518	6 / 9	3,012
8,415	B	10,783	7 / 9	8,387
14,341	C	16,052	8 / 9	14,268
10,107	D	10,151	9 / 9	10,151
7,201	E	5,972	11 / 9	7,299
4,910	F	3,401	13 / 9	4,912
2,987	G	1,797	15 / 9	2,995
146	H	68	18 / 9	136
51,114		52,742		51,160
99.0%		Multiplied by Collection Rate		99.5%
50,603		COUNCIL TAX BASE		50,904

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, is paid to a central pool (the NNDR pool) managed by Central Government. Authorities then receive back their share of the pool based on a standard amount per head of the local adult population. The amounts in these accounts can thus be analysed as follows:

2006/07		2007/08
£ ' 000		£ ' 000
(114,894) X (42.6p)	Non-domestic rateable value (114,622)	
48,945	multiplied by small business rate (44.1 p)	50,548
8,985	Less: allowances and other adjustments	9,945
39,960	Net contribution due to NNDR national pool	40,603
202	Cost of Collection	203
40,162	Income from business ratepayers	40,806

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

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

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

The Authority's responsibilities

The Authority is required to:

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

The Director of Corporate Services' responsibilities:

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


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

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

The Director of Corporate Services has also:

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

The Statement of Accounts presents fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2008.

Signed 

Director of Corporate Services

Date 17.9.08

Annual Governance Statement to the 2007/08 Accounts**Scope of responsibility**

Canterbury City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Canterbury City Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Canterbury City Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

Canterbury City Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*.

A copy of the code can be found on our website under the Audit Committee meeting of 3rd December 2007, Agenda Item 11, Appendix 1 at <http://www2.canterbury.gov.uk/trove/newcommittee/818q6t00.doc> or can be obtained from the Assistant Head of Corporate Governance. This statement explains how Canterbury City Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Canterbury City Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Canterbury City Council for the year ended 31 March 2008 and up to the date of approval of the annual report and statement of accounts.

The key elements of the systems and processes that comprise the authority's governance arrangements are set out in the table below:

System & Process	Comment	Evidence
<ul style="list-style-type: none"> ▪ Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users 	<p>A vision of what the district might be like in 20 years' time has emerged following extensive consultation with local organisations and residents.</p> <p>This new picture incorporating the hopes and aspirations of the local community follows months of research and consultation.</p> <p>The council has worked with partners to formulate the vision to ensure it meets the needs and potential of Canterbury, Herne Bay, Whitstable and the surrounding villages</p>	<p>Corporate Plan 2008 - 2012</p>
<ul style="list-style-type: none"> ▪ Reviewing the authority's vision and its implications for the authority's governance arrangements 	<p>The council's vision is stated in the Corporate Plan which is reviewed every 4 years. The council has now adopted its third corporate plan which will last until March 2008. The plan highlights the key priorities for the council over the next four years and how it will assess its performance in achieving these. We will report back to the public and other major stakeholders - like the voluntary sector and local businesses - on what we've achieved against the specific targets we have set ourselves.</p> <p>The quarterly review of the Strategic Risk Register effectively assesses the implications arising from the authority's vision</p>	<p>Corporate Plan 2008-2012</p> <p>Audit Committee & Risk register</p>

System & Process	Comment	Evidence
<ul style="list-style-type: none"> ▪ Measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources 	<p>Under the Local Government Act 1999, all Councils have a duty of Best Value. Canterbury has a programme of efficiency reviews which is revised each year to make sure it takes into account any new government initiatives, local developments and changes within the Council.</p> <p>The Council monitors its performance against a range of performance indicators including Key Local Performance Indicators and statutory Best Value Performance Indicators. Targets for KLPIs are set out in our Strategic Plan and targets for BVPIs are set out in our Best Value Performance Plan. Performance is reported to the management team and councillors/executive on a six monthly basis</p>	<p>Best Value Review Programme</p> <p>PRISM (Performance, Risk, Improvement, Service, Management) for Performance Indicators</p>
<ul style="list-style-type: none"> • Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication 	<p>Each member of the Executive has specific responsibilities - for example culture, tourism, environment, housing and finance. This way of working ensures the council is accountable in its decision-making, and therefore more open to public scrutiny.</p> <p>These roles and responsibilities are clearly defined and published in the Executive Minutes.</p> <p>The terms of reference of Committees and officers delegated powers all form part of the Constitution which is regularly revised and updated. A full revision is carried out each year and was presented to full Council in May 2008 to be agreed and adopted.</p> <p>The Constitution is available for all to see on the authority website and on the Intranet. A summary of roles and responsibilities is also available on this medium.</p>	<p>Constitution of the Council available on the Website and Intranet.</p>
<ul style="list-style-type: none"> ▪ Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff 	<p>The Council has adopted the model code of conduct for members and supplementary protocols including the 10 general principles of member conduct. The Code of Conduct for employees is part of the conditions of service, and included in the induction pack given to all new employees. It is also published on the Intranet, which is accessible to all employees.</p>	<p>Terms and Conditions of Employment. Council's Constitution. Standards Committee</p>

System & Process	Comment	Evidence
<ul style="list-style-type: none"> ▪ Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff (cont) 	<p>Members' code of conduct is clearly defined in the Constitution of the Council and follows the national standard suggested by Government.</p> <p>Regular reminders are sent to staff and members informing them of their duty to abide by the Code of Conduct and all interests and hospitality received are documented at a central point with a delegated responsible officer.</p> <p>The new Personal Development Appraisal (PDA) form will incorporate a section on specific council policies and codes which the employee will be required to acknowledge annually, for example, the acceptable use policy for use of Information Technology.</p>	<p>PDA Process</p> <p>Gifts and Hospitality Register</p> <p>Member Declarations of Interest</p>
<ul style="list-style-type: none"> ▪ Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks 	<p>The Director of Corporate Services is responsible for maintaining a continuous review of the authority's Financial Regulations and submitting any additions or changes necessary to Full Council for approval.</p> <p>The Kent Authorities Contract Standing Orders have been adopted at Canterbury with few amendments.</p> <p>The Risk Management Policy of the Canterbury City Council is to adopt best practice in the identification, evaluation and cost-effective control of risks to ensure that they are either eliminated or reduced to an acceptable level.</p>	<p>Financial Regulations and Contract Standing Orders available in the Constitution and on the Internet.</p> <p>Risk Management Policy available on the Intranet.</p>
<ul style="list-style-type: none"> ▪ Undertaking the core functions of an audit committee, as identified in CIPFA's <i>Audit Committees – Practical Guidance for Local Authorities</i> 	<p>An Audit Committee has been established and meets quarterly. The Committee consists of 5 councillors (plus 2 reserves) and an independent Chairman.</p> <p>Their activity and regulatory framework is clearly identified in the Council's Constitution and also on the Council's Web site. The core functions are as identified in CIPFA's practical guidance.</p>	<p>Constitution of the Council</p> <p>Audit Committee Terms of reference</p>

System & Process	Comment	Evidence
<ul style="list-style-type: none"> ▪ Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful 	<p>Management at all levels are responsible for ensuring their service is compliant with relevant laws and regulations. The council has extensive, detailed and clear policies and procedures to give guidance to staff and management and to identify responsibilities.</p> <p>A Policies and Procedures Archive (PaPA) is attached to the Council's Intranet site which allows all staff access to every policy or procedure that needs to be complied with.</p> <p>Internal Audit carry out regular reviews of systems ensuring full compliance with relevant laws, regulations, internal policies and procedures. The frequency of each system audited is assessed by a risk scoring mechanism – the higher the risk the more frequently an audit review is undertaken.</p> <p>Audit Commission carry out annual inspections to verify compliance.</p>	<p>Contract Standing Orders & Purchasing Guidance</p> <p>Financial Regulations</p> <p>PaPA (electronic Policies and Procedures Archive)</p> <p>Annual Audit Plan</p>
<ul style="list-style-type: none"> ▪ Whistle-blowing and other means of receiving and investigating complaints from the public 	<p>The Council's Anti Fraud and Corruption Policy includes a section on whistleblowing procedures and is included on induction courses which all new employees have to attend. Personnel records of training carried out are maintained and regular reports are produced to identify gaps in training. Refresher sessions are organised to ensure all staff are aware of this policy.</p> <p>Posters and leaflets are on show around the council offices to publicise this policy, which is available to all staff on the Intranet (PaPA).</p> <p>The complaints procedure is available to all staff on PaPA and a range of performance indicators ensure all complaints are dealt with according to the procedure. Results of the indicators are publicised to staff on PRISM. Customers are advised of the procedure both electronically on the authority website and at the council offices via posters and leaflets available in the public areas.</p>	<p>PaPA</p> <p>Anti-fraud & Corruption & Whistle-blowing Policy</p> <p>Induction manual</p> <p>PRISM</p> <p>Leaflets and posters available in the public areas</p>

System & Process	Comment	Evidence
<ul style="list-style-type: none"> ▪ Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training 	<p>Every officer has a Performance and Development Appraisal annually with a 6 monthly review. This identifies the direction they need to work towards, the projects that need to be carried out and if there are any training needs.</p> <p>The competency Framework is also completed at this stage, which looks at the competencies needed for the job and the competencies needed for improvement and promotion. This also identifies training needs.</p> <p>Members are required to attend relevant training to ensure that they are equipped for particular roles. Informed by a member survey and officer assessment, skills training is made available to members generally.</p>	<p>PDA</p> <p>Training Guide on the Intranet</p> <p>Member Training Programme</p>
<ul style="list-style-type: none"> ▪ Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation 	<p>There is a detailed strategy on the website called Getting the Message Across – a Strategy for Marketing, Public Relations and Consultation.</p> <p>Customer Charters identify how we will consult with all stakeholders and encourage communication with all our stakeholders.</p> <p>Corporate Services have a marketing and communications strategy. Several sections within the council have already successfully obtained the Charter Mark and for this purpose have to detail and provide solid evidence that clear channels of communication with all sections of the community and the council's stakeholders have been established and are continually improving.</p> <p>Other sources of communication are:</p> <p>Residents' forums</p> <p>School conferences</p> <p>Residents' surveys</p> <p>Children and Youth team work with young people and consult with them</p> <p>The council's Neighbourhood Development Team consulted in focus group format.</p>	<p>Community Strategy</p> <p>Corporate Plan</p> <p>Strategy for Marketing, Public Relations and Consultation.</p> <p>Charter Mark evidence.</p>

System & Process	Comment	Evidence
<ul style="list-style-type: none"> ▪ Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships (<i>Governing Partnerships: Bridging the Accountability Gap</i>, Audit Commission, 2005), and reflecting these in the authority's overall governance arrangements. 	<p>Article 11 of the constitution offers explanatory notes on joint working arrangements, the procedures for access to information and the delegation of duties under joint working arrangements.</p> <p>The Canterbury District Community Partnership is set up to strengthen the connection between public sector agencies, local government the voluntary and community sectors businesses and local residents. There is a very tight protocol which gives clear responsibilities for the Executive Board and all partners.</p>	<p>Constitution</p> <p>Partnership Agreements</p> <p>Canterbury District Community Partnership Protocol</p> <p>Partnership Audits in 2007 and 2008</p>

Review of effectiveness

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

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework is given in the table below:

DESCRIPTION OF KEY ELEMENTS	ROLE	REVIEW OF EFFECTIVENESS
1. The Authority	The Authority's objectives are set out in its Corporate Plan. These are based on seven themes: Excellence, Community, Culture, Economy, Environment, Transport and Wellbeing. The last six of these also the themes for the Community Strategy	A wide range of control and reporting mechanisms are in place to monitor performance against the Corporate Plan and Community Strategy. These include both internal mechanisms, such as the Overview and Scrutiny Role, Risk Management, Budget Monitoring & Control, the Performance Management framework and the procedures set out in the Council's Constitution, and externally Resident / Public consultation and Satisfaction Surveys.
2. The Executive	The role of the Executive is to lead the implementation of council policy within the council's budgetary and control framework.	The Overview and Scrutiny Committee monitor the Executive and there have been a limited number of call-ins during the year 2007/08. The control and reporting mechanism listed under, 1 above also acts as a review of the performance of the Executive.
3. The Audit Committee	<p>The Audit Committee's role is split into 3 areas: Audit – overseeing and reviewing the results of internal and external audit activity</p> <p>Regularity – overseeing and reviewing procedures relating to contract procedures, financial regulations, codes of conduct, anti-fraud & corruption and whistle-blowing arrangements, risk management and complaints.</p> <p>Accounts – reviewing the annual accounts and considering whether there are any matters of concern to raise</p>	<p>The Audit Committee approved the 2007/08 audit plan setting out the programme of work for reviewing and monitoring the activities of the council, in particular its internal financial controls.</p> <p>Quarterly updates of progress against this plan were reported to this committee and a summary annual report in June 2008, including a review of the effectiveness of Internal Audit.</p> <p>Quarterly reports of the Strategic Risk Register are made to this committee.</p> <p>The annual accounts are considered annually at the June Meeting</p>

DESCRIPTION OF KEY ELEMENTS	ROLE	REVIEW OF EFFECTIVENESS
4. The Standards Committee	The role of the Standards Committee is to promote high standards of conduct by councillors, to assist them to observe the council's Code of Conduct, and to perform other functions of a similar nature.	The standards committee meets on a regular quarterly basis to consider these matters and reports annually in June of each year.
5. Internal Audit	The role of Internal Audit can be summarised as "To give an independent opinion on the adequacy, effectiveness and operation of controls within the authority's systems".	The Head of Audit reports annually on the results of audit work The conclusion in the annual report for 2007/08 was "there are no major areas of concern, which would give rise to a qualified audit statement regarding the systems of internal control concerning either the main financial systems or overall systems of corporate governance. "
6. Other reviews / Assurance Mechanism	Performance and Value for Money is achieved through the work of the Policy and Improvement Division and the Scrutiny Committee, and the Audit Commission also reports on these areas under the Use of Resources Judgements.	Best Value / Scrutiny reviews concluded during 2007/08 were as follows Efficiency Reviews - Parking services (pilot) - Central Services - Tourism Scrutiny Reviews - Highways - Westgate Towers Audit Commission Use of Resources Judgement reported to the Audit Committee in March 2008 gave a score of 3 overall (improving strongly)

Significant governance issues

The Strategic Risk Register is the key instrument used by the council in identifying and monitoring significant governance issues.

The Local Code of Governance and Risk Management Policy outline how the risk management process works and how it feeds firstly into the risk register and then the Annual Governance Statement.

In summary the risk register is updated from the following sources: -

- Risks identified by individual officers during the course of their work, notably the Director of Corporate Services, the Audit & Exchequer Manager and the Risk Management Officer.
- Risks identified from both internal and external audit reports.
- Risks identified within the annual audit interviews.
- Risks identified from assessments carried out in other council reports notably project briefs.
- Risks identified during the course of the risk register review process, notably Heads of Service, Management Team and Audit Committee.
- Risks identified at Management Team, Departmental Team meetings and the Risk Management group, these are standing agenda items.

In summary the risk register is monitored and reviewed quarterly by the following: -

- Heads of Service
- Corporate Governance/Risk Management Officer Group
- Management Team
- Audit Committee
- RISK module on PRISM

The Strategic Risk Register is a public document updated and published at least quarterly in the agenda of the Audit Committee and available electronically at the same time.

The significant governance issues identified below are linked thematically with reference to the individual risk listed on the risk register. The steps the council is taking to either control or mitigate these risks are recorded on the risk register including reference to other action plans and reports where appropriate.

Delivering Major Projects

The council has made a commitment to several high profile projects notably the new Marlowe Theatre. These projects are important to the continued economic growth of the district and failure to deliver these projects would impact upon growth as well as result in a public loss of confidence in the council as an organisation.

Individually each project has a range of risks many often significant in themselves notably the long-term financial commitment. Collectively the delivery of these projects will be time consuming and likely to impact generally on corporate capacity and the delivery of other corporate aims and services.

- The new Marlowe Project
- Wincheap Regeneration
- Beaney Institute
- St Peters & St Dunstons Regeneration
- Traffic Management

Maintaining Strong Internal Processes

The term 'internal processes' refers to the policies and procedures the council has adopted to govern it as a corporate body as well as develop its staff. These processes are intrinsically linked to corporate governance, service delivery and how the council manages its risks. For these reasons they are regularly subject to internal and external review, including the Use of Resources assessment as part of the Comprehensive Performance Assessment.

Maintaining strong internal processes can be difficult as they often lack the immediacy of other corporate goals and require an ongoing commitment. Improvement gains made can often seem incremental and yet these processes can often directly impact on the community.

- Business Continuity (ICT Service)
- BVPI Performance Slowdown
- Information Management
- Local Development Framework
- Procurement
- Safeguarding Children
- Member Training
- Succession Planning
- Management Skills & Staff Development
- Anti-Fraud & Corruption

Managing Finances

The council like other local authorities is facing increasing financial pressure to deliver more with proportionately less funding from central government. Council finances have also been affected by changes in Concessionary Bus Fares and restrictions on Land Charges as well as the expected financial commitment to major projects like the new Marlowe Theatre.

The council has sought to mitigate these risks within its medium term financial strategy and by seeking greater efficiencies, but in the future the council's ability to absorb financial risks and increased costs will be much reduced.

- Budget Limitations & Overspends
- Efficiency Agenda
- Concessionary Bus Travel
- Housing Benefit Subsidies
- Land Charges
- Building Maintenance Funding

Working with Partners

There has been an emphasis in recent years on greater service delivery through partnerships. These partnerships range from key contractors notably SERCO to smaller community based groups. There is now also increased emphasis on the council working in partnership with other local authorities particularly those in the East Kent area through shared services and joint contracts.

The council has given a good degree of consideration to the risks that arise from the different forms of partnership working and developed processes that consider how partnerships are entered into, their ongoing governance, and exit strategies. Successful partnership remains critical to the successful delivery of council services and therefore the risks arising from these are regularly considered within the risk register.

- Active Life
- CHARM (Housing Repairs) Contract
- Sure Start
- Housing PFI
- Supporting People
- Horsebridge Arts & Community Centre

Responding to Major Emergencies

The large-scale summer floods in the north and west of the country again emphasised the role local authorities play in the major emergencies and the importance of improving flood resilience.

The council already works with other emergency responders notably Kent County Council in the preparation and testing of emergency plans and business continuity plans. The council has always taken special regard to improving flood resilience within the district and this work continues.

- Sea Defences & Inland Flooding (Management & Response)
- Business Continuity (General)

Corporate Governance Opinion

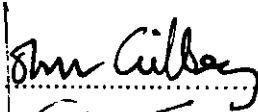
The audit committee has advised us on the implications of the result of the review of the effectiveness of the governance framework.

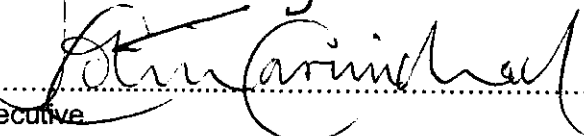
There are no significant matters requiring a separate Action Plan to this statement. The council's significant risks and the management of these risks are listed in the strategic risk register. These are aimed at addressing risks and ensuring continuous improvement of the governance systems in place.

The risk register can be found from the council minutes from the link <http://www.canterbury.gov.uk/buildpage.php?id=477>.

For the position at March 2008 the risk register is Agenda enclosure 8 to the Audit Committee minutes, see link: [http://www2.canterbury.gov.uk/committee/Data/Audit%20Committee/20080303/Agenda/\\$Agenda%20Enclosure%208.doc.pdf](http://www2.canterbury.gov.uk/committee/Data/Audit%20Committee/20080303/Agenda/$Agenda%20Enclosure%208.doc.pdf).

We will continue to monitor these actions to further enhance our governance arrangements. We are satisfied that these will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: 
Leader

Signed: 
Chief Executive

on behalf of Canterbury City Council

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

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Canterbury City Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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

Respective responsibilities of the Director of Corporate Services and auditor

The Director of Corporate Services' responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

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

I report to you my opinion as to whether the Authority accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the Authority accounting statements, and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the

Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In my opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

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

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which

prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

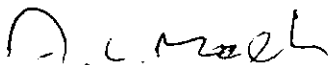
I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Canterbury City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2008.

Best Value Performance Plan

The previous appointed auditor issued our statutory report on the audit of the Authority's best value performance plan for the financial year 2007/08 in September 2007. She did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.



Andy Mack
District Auditor
Audit Commission
16 South Park
Sevenoaks
Kent
TN13 1AN

29 September 2008